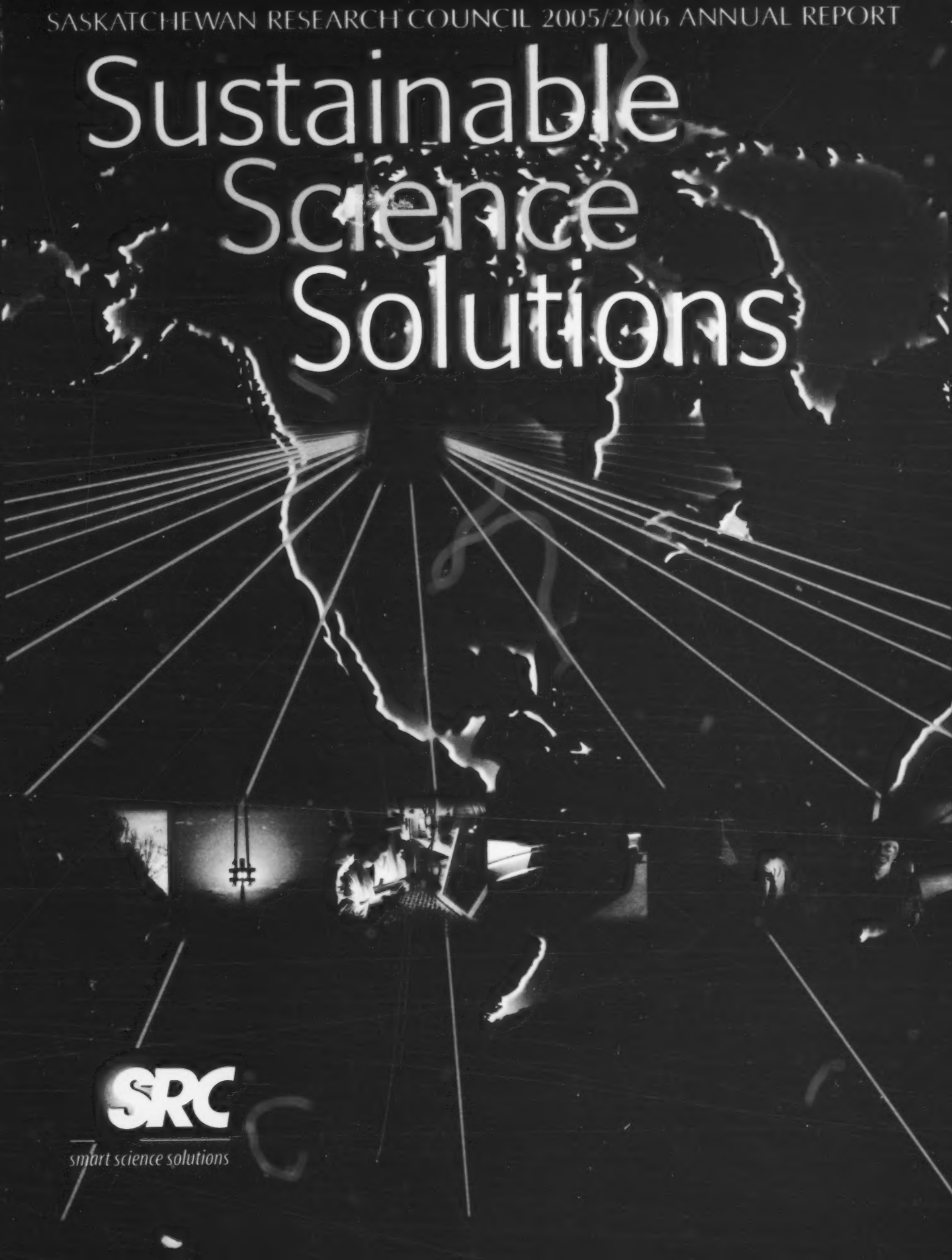
SASKATCHEWAN RESEARCH COUNCIL 2005/2006 ANNUAL REPORT

Sustainable Science Solutions



SRC

smart science solutions

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Saskatchewan Research Council Core Values ..... *Inside Back Cover*

SRC's Mission

SRC's mission is to help the people of Saskatchewan strengthen the economy with quality jobs and a secure environment. We do it through research, development, and the transfer of innovative scientific and technological solutions, applications and services.

SRC's Vision

SRC will be an internationally recognized leader in the development and implementation of relevant science and technology. We are committed to use this strength to enable our customers to thrive in the world economy, and to benefit Saskatchewan.

SRC's Purpose

SRC creates wealth through the responsible application of science and technology to assist Saskatchewan industry to be globally competitive.

We create wealth through

i) increasing production (of goods and services)
ii) adding value (to goods and services)
iii) improving productivity
iv) creating and commercializing new products and services

The Research Council Act

Section 21 (2) directs that:
Every report shall be laid before the Legislative Assembly in accordance with *The Tabling of Documents Act, 1991*.

106-06950/

Letter of Transmittal

June, 2006

Letter of Transmittal

To the Honourable Lynda Haverstock
Lieutenant Governor of Saskatchewan

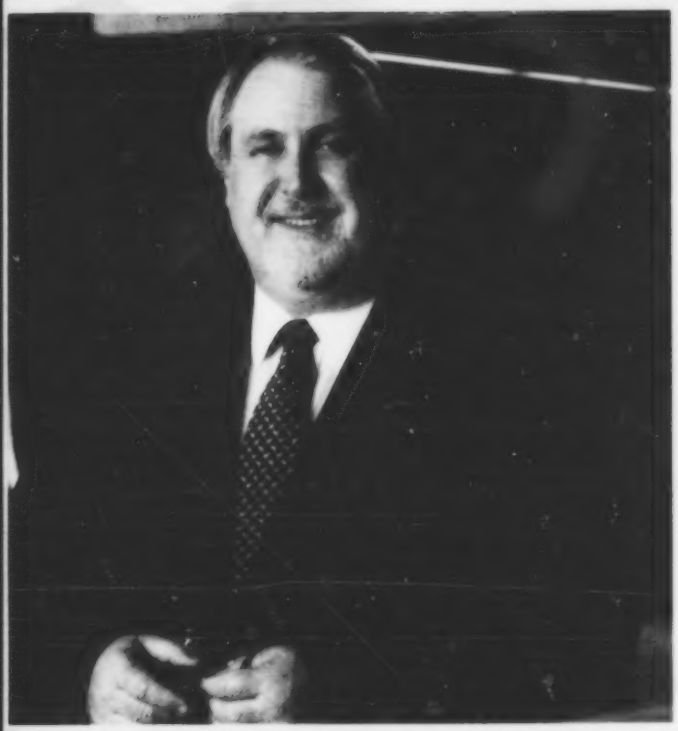
May it please your Honour:

The undersigned presents herewith, for your consideration, the report of the Saskatchewan Research Council for the year ended March 31, 2006.

Respectfully submitted,

Eric Cline
Minister Responsible for SRC

Message from the Chair



Saskatchewan's Centennial Year provided an opportunity to celebrate our achievements as a province and to look forward to our next century. The Board of Directors of the Saskatchewan Research Council is proud of the solid contribution our organization has made to the province in the past. We are certain SRC will make an even larger contribution to Saskatchewan's future.

In September 2005, a new economic plan was released by the provincial government. *The Saskatchewan Action Plan for the Economy: A New Century of Opportunity* outlines a broad strategy to move the province forward on the path of prosperity. The plan sets out actions for sustained growth on four strategic fronts:

- Expand and Build on our Natural Strengths
- Extend our Success in Research and Innovation
- Enhance and Promote our Competitive Advantages
- Broaden our Economy, Workforce and Jobs

SRC is a significant player on each of these fronts, as indicated by a review of this report.

One of Saskatchewan's strengths is energy and SRC is actively involved in the research and development of leading-edge heavy oil recovery technologies, ensuring that Saskatchewan's conventional energy supplies can be maximized. The Action Plan also calls for accelerated development of alternative energy sources, including hydrogen, wind and ethanol. SRC is a world leader in the development of hydrogen- and ethanol-fuelled vehicles and support technologies.

Other natural strengths covered in the Action Plan are mining, agriculture and forestry. SRC operates dedicated laboratories supporting uranium and diamond mining; SRC's labs foster innovative research and development in agriculture and biotechnology; and SRC is also involved in sustainable forestry research.

The Action Plan's focus on research and innovation are our stock and trade. It is focused on strengthening Saskatchewan's advanced technology sector and building a green and sustainable economy. In the past year alone, SRC opened its 3D Virtual Reality Centre, launched its first commercial-scale production of a vaccine, developed vehicles that operate on hydrated ethanol, promoted advanced, energy-efficient buildings, and assessed innovative technologies to reduce air pollution.

All of these technologies offer competitive advantages to Saskatchewan and help to diversify the economy. They also foster the creation of quality jobs for our young people as they graduate from university and college.

This is my last message from the Chair as I will be retiring from the SRC Board in 2006/07. I have greatly enjoyed being a part of the SRC team during the past years and seeing all of the successes that have been achieved in this remarkable organization. I give my thanks to my fellow board members and to the senior management team for their commitment and support during my term as Chair. I leave SRC in able hands that are making this organization integral to Saskatchewan's "New Century of Opportunity".

Keith Hanson
Chair, Board of Directors

Message from the President

This has been another outstanding year for the Saskatchewan Research Council (SRC). We have now completed the fourth year of our current 5-year strategic business plan and I am pleased to report we have exceeded our overall revenue growth targets, advanced our strategic coverage, and improved our positioning along the innovation continuum (technology development "S curve"). We are already working on our "stretch goals" and setting the stage for the next 5-year strategic plan.

Operationally, we have worked very hard to ensure that safety remains a priority at all levels and in all aspects of our work. In this first full year of implementation of the SRC Safety Strategy a number of priority initiatives were launched, including evaluation tools and expanded portfolios of lagging and leading indicators, that are helping us learn where we are performing well and where we can improve.

SRC serves clients from all around the world. However, success for SRC means delivering on our mission to help the people of Saskatchewan strengthen the economy with quality jobs and a secure environment. Part of the equation for success is represented by contributing to the development of a stronger economy with increased jobs and increased economic activity. Our economic impact audit shows that in 2005/06 our work with a thousand Saskatchewan clients (out of 1,600 total clients) contributed to the creation or saving of over 2,450 jobs - worth over $116 million by itself - and to direct economic activity of over $342 million.

Responding to the needs of businesses and communities has been rewarded with ever-increasing opportunities to do more for Saskatchewan. As a result we experienced yet another year of double-digit growth, achieved a record $33 million in outside revenue, and grew to 317 employees. 2005/06 also marked a record in capital additions for SRC in that, through a combination of financial help from key stakeholders plus re-investment of revenue from operations, we were able to make capital equipment purchases and leasehold improvements worth a record $7.7 million (on a cash basis). The great work of our people has led to increased support and increasing requests for work from our clients. This response in turn has led to significant increases in our financial, equipment, facility, and human capacities. We will

continue to fuel this cycle by using these capacities to provide leading edge services to Saskatchewan businesses and communities.

The second part of the equation for success is represented by contributing to the safety, security, and sustainability of the environment in which we live. As much as we at SRC believe in providing smart science solutions, we are increasingly perceiving that smart solutions need to also be sustainable science solutions. Our work is helping businesses, including our own, to become not just more successful in terms of economic prosperity and jobs, but also more environmentally and socially sustainable (contributing to their triple bottom line). In 2005/06 the key non-financial impacts of our work, as identified by our clients, were in the areas of energy savings, environmental health and safety, and in the reduction of greenhouse gas emissions. It is timely then, that sustainable science solutions is the theme of this annual report. As you read through it, you will see that environmental protection and sustainability already underlie much of our research, development, and demonstration activities.

Some of our sustainability-impact activities are fairly obvious at first glance:

- SRC's Office of Energy Conservation facilitates the development and implementation of cost-effective energy conservation initiatives. Together with our Building Performance Business Unit, recent impacts include nationally-recognized energy savings in government buildings, energy-efficient lighting in municipalities, innovative housing that uses 90% less energy than conventional homes, and demonstrations of energy-efficiency advances for vehicle fleets.
- Climate Change Saskatchewan provides public education and outreach programs related to climate change and its impacts on Saskatchewan people, communities, and businesses.
- Our collaborative projects with the Federation of Saskatchewan Indian Nations and Aboriginal communities focus on environmental health, safety, and sustainability of lands, water, and other resources.
- Some projects are aimed directly at alternative, sustainable energy production, such as the application of SODAR and other technologies to the mapping of winds, and to wind turbine siting, with partners such as George Gordon First Nation and Cowessess First Nation.
- SRC's environmental projects are directly aimed at sustainability, such as those in climate change impacts and adaptation, air emissions and their effects on health, aquatic and soil ecosystems, and in our work finding genetic markers to aid in the selection of highly productive tree crops for sustainable fuel and fibre production.

On the other hand, some of our sustainability-impact activities are not so apparent at first glance because many, if not most, of our other projects also involve sustainable science solutions, for example:

- Our work helping a Regina company develop a niche for a new product led to an exciting field test of a technology that could improve the safety of drinking-water treatment systems in Northern communities.
- Our alternative-fuel hydrogen, ethanol, and biodiesel vehicles are aimed at specific business niches, but they also provide alternatives to diminishing fossil-fuel resources while operating with greatly reduced emissions.
- Our development of technology to transport heavy oil by pipeline also provides a means to reduce the energy used in transportation and simultaneously reduce wear on our highways.
- Our new 3D high pressure scaled physical model was built in order to advance the development of an improved heavy oil recovery process, but the new process will also consume less energy and less water, with fewer air emissions, than conventional technologies.
- Our new 3D Virtual Reality Centre is being used to help clients design their mineral exploration drilling programs, but we will also be able to develop environmental applications such as the visualization of atmospheric and groundwater processes.

We have positioned SRC as Saskatchewan's premier provider of applied research, development, and demonstration in support of Saskatchewan's key science and technology strategies. We now leverage our "public good" investment with an exceptional uplift from work done for businesses and communities into increased economic activity in the province with an extraordinary mandate effectiveness ratio of 38 (that is, $38 of economic impact for every $1 invested in SRC by the province). We have been called "the most entrepreneurial provincial research organization in Canada." Most importantly of all, we are demonstrably helping the people of Saskatchewan develop a viable economy with quality jobs and a secure environment. We are doing this by hearing and responding to the needs of Saskatchewan's businesses and communities.

As always, our successes are the result of exemplary achievements by dedicated people, and I offer my sincerest thanks to everyone at SRC for their contributions to "Sustainable Science Solutions." Working together, we are well positioned for sustainable growth as we approach our 60th Anniversary in 2007. I also thank our more than 1,600 clients and partners for their support and commitment to mutual success.

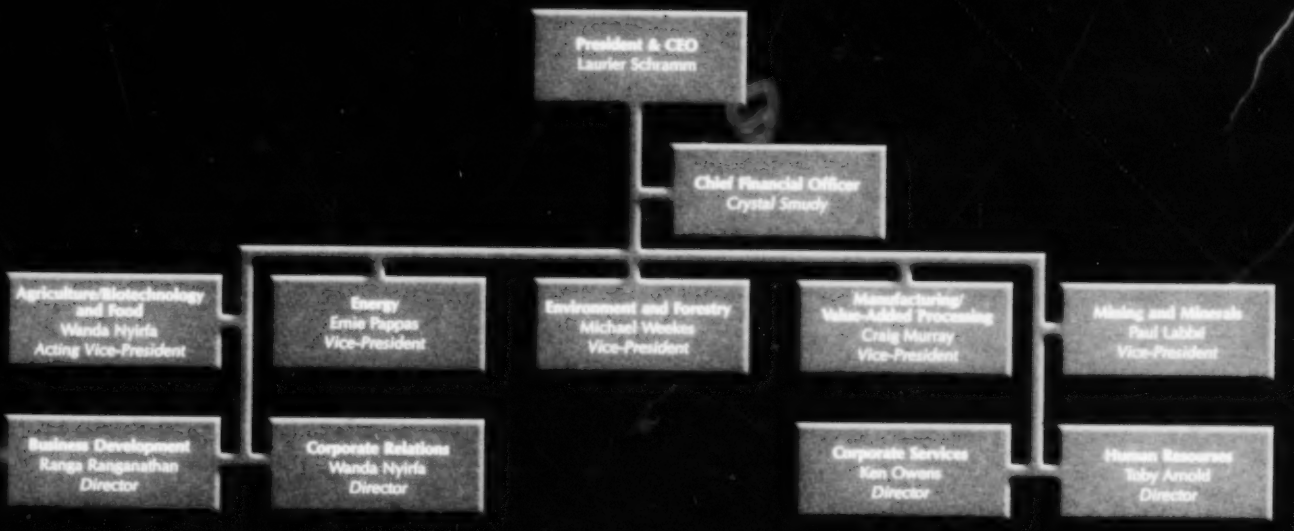
Laurier Schramm
President and Chief Executive Officer

Board of Directors

Left to right: Doug Kelln, Keith Hanson – Chair, Laurier Schramm – Secretary, Peta Bonham-Smith, Patsy Gilchrist, Craig Zawada, Larry Cooper, Mike Monea – Vice-Chair – Missing: John Bennett

Senior Management

As of June 30, 2006



"The CFS has an active program looking at high-yield, short rotation woody biomass for energy conversion on agriculture lands. GenServe Labs has been instrumental in assisting with the validation of hybrid poplar clone identification and the preliminary identification of DNA markers for willow clone fingerprinting."

– Derek Sidders, Silviculture Specialist for the Canadian Forest Service

Agriculture and Biotechnology

Willow genotyping for the Canadian Forest Service

Plant biomass can offer an important alternative to non-renewable energy resources. Fast growing willow species provide high biomass yields on a short rotation. Another factor making willow economically attractive is its use for products such as pulp and oriented strand board.

SRC's GenServe Laboratories is developing a genetic test for willow species for the Canadian Forestry Service (CFS). The microsatellite-based testing can be used to assess genetic diversity and assign fingerprints to individual willow lines for identification purposes. This will help the client maintain species-specific lines as they assess and develop more productive willow crops.

Since willow and poplar are closely related trees, an initial screen of willow varieties with hybrid poplar markers was undertaken. Preliminary testing of willow varieties provided by CFS utilizing nine hybrid poplar markers showed monomorphic amplification in three markers. Since this is not sufficient to establish identity, publicly-available microsatellite marker sequences are being developed specifically for willow species.

"The CFS has an active program looking at high-yield, short rotation woody biomass for energy conversion on agriculture lands," says Derek Sidders, Silviculture Specialist for the Canadian Forest Service. "GenServe Labs has been instrumental in assisting with the validation of hybrid poplar clone identification and the preliminary identification of DNA markers for willow clone fingerprinting."

Genetic technologies have a wide variety of applications. In this case, GenServe's capabilities are contributing to the development of alternative crops that can provide sustainable fuel and biomass options and improve the environment.

SRC Investigates New Opportunities

In 2005/06 SRC acquired a short-term licensing agreement with the Dutch biotech company Crucell. The agreement allowed SRC to use a proprietary mammalian cell line called PER.C6 in the development of vaccines, therapeutics, and gene therapy products.

A number of factors influence decisions to use a particular cell line in the manufacture of biopharmaceuticals. These include product yield, experience with the cell line at the manufacturing scale, its acceptance by regulatory authorities, and the cost of using the cell line (i.e. production efficiencies and license fees).

PER.C6 is becoming the cell line of choice for many multinational biopharmaceutical companies who routinely use it to achieve high yields of their manufactured products. It is also familiar to and accepted by Canadian, American and European regulatory authorities. The PER.C6 license includes on-site training and knowledge files that offer clients a wealth of experience based on the processes developed by other users.

Since PER.C6 is so well characterized and understood, there are three distinct advantages. The first is a reduced product development risk by using a well-known and well-characterized cell line. The second is easier product registration with regulatory authorities. The third is more "attractive" products for sale or license to large biopharmaceutical companies because there are significantly fewer unknowns when using this cell line.

By investigating new opportunities, SRC is able to monitor trends in the market, and better assist clients with solutions.

Bova-Can Supports Pilot Project On Food Safety

Canada's $30 billion plus cattle industry retains a tenuous hold on its foreign markets as a consequence of the BSE or Mad Cow crisis. Restoring confidence in the safety of Canadian cattle depends on our ability to demonstrate that beef and dairy herds are BSE-free. This will require that a fast and accurate cattle movement and disease monitoring system be put in place, with traceability from fork to farm.

A major traceability breakthrough has occurred with the development of an identity tag which obtains a tissue sample when the tag is inserted into a calf's ear at birth. An additional benefit to the system is that it provides a large number of genetic samples for research purposes.

SRC's Bova-Can Laboratories is a partner in an ACAAF-funded (Advancing Canadian Agriculture and AgriFood) pilot project awarded to Holstein Canada to test the tissue identification tag approach in Canadian dairy herds.

"Bova-Can Laboratories has unique ties to the Canadian livestock industry, extensive experience with genetic markers and genotyping, and a substantial database of cattle genotypes and stored DNA samples," says Bethany Muir, Coordinator, Research & Development of Holstein Association of Canada. "Holstein Canada is very pleased to be partnered with Bova-Can on this innovative venture to carry out genotyping research and livestock traceability using specifically-modified ear-tags for the collection of tissue samples."

Bova-Can's tissue bank is the repository for the ear tissue collected during the project. It will also isolate DNA from samples and verify the parentage of calves to demonstrate feasibility of this approach. Two slaughter companies will utilize DNA drawn from meat samples of cows that have been tagged and sampled to demonstrate and prove that DNA trace-back is feasible for wholesale and retail cuts and carcass trimmings.

Bova-Can continues to be a trusted partner in the development and application of genetic technologies which are enhancing the safety, security and profitability of the cattle industry and food system.

Human Health Test Procedures Optimized by GenServe

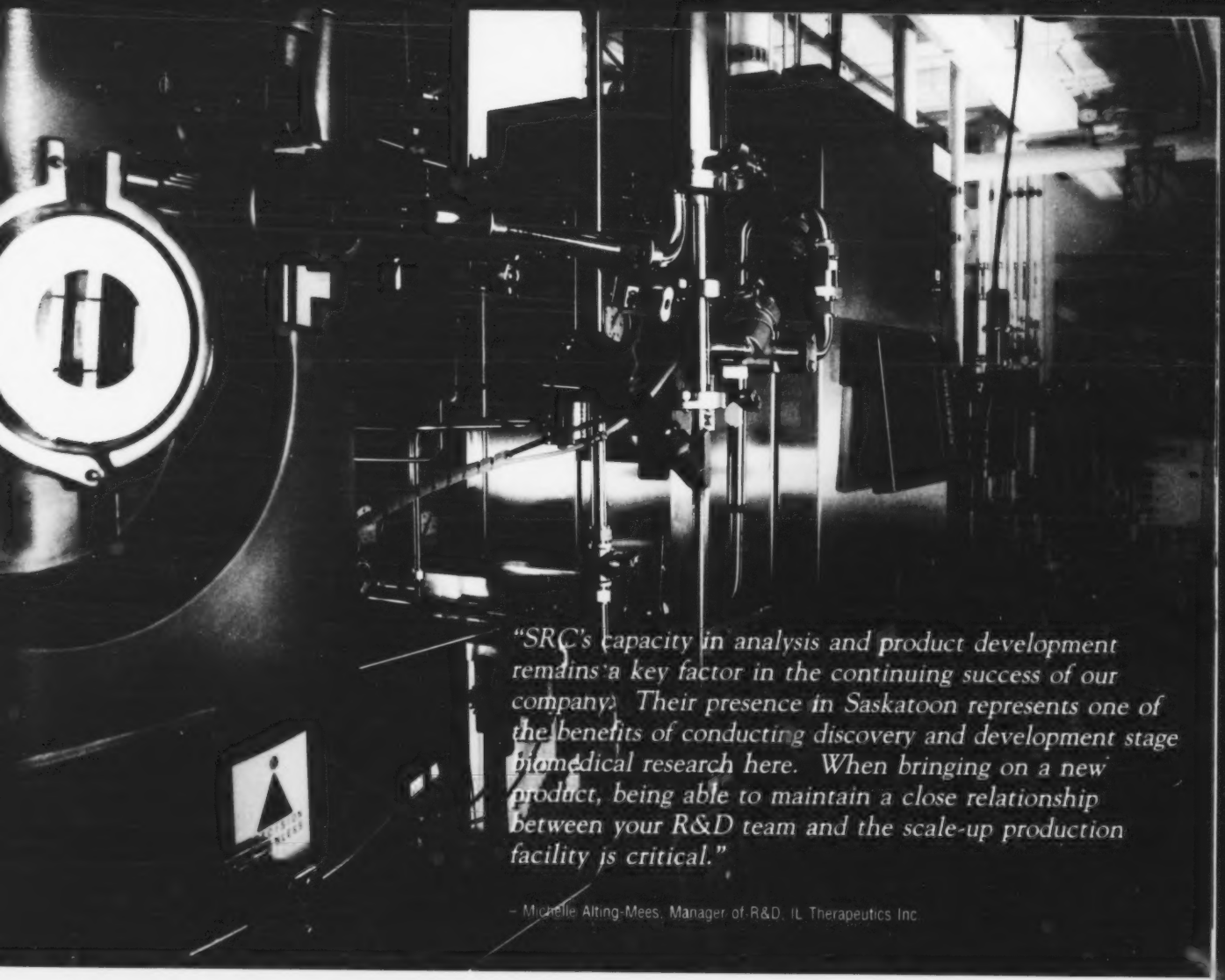
SRC's GenServe Laboratories was contracted by Bio-ID Diagnostic Inc. to optimize and validate the MultiGEN procedure used in human STD (sexually transmitted disease) and HPV (human papilloma virus) screening. Previous high throughput automated testing had yielded unacceptable cross contamination and inconsistent, non-reproducible results. GenServe was able to provide critical optimization and validation data and procedures.

The MultiGEN procedure was developed to address the common diagnostic need to differentiate specific strains of causative organisms from those that can trigger similar non-threatening clinical symptoms. The MultiGEN procedure performs simultaneous amplification and sequencing on multiple genome targets. It can be fully automated and customized to increase accuracy, reduce cost, and increase speed of detection while maintaining high specificity and sensitivity.

GenServe's growing capacity supports more effective genetic testing and is contributing to the growth of the biopharmaceutical and health industries—and ultimately to a better quality of life for Canadians.

Bio-Processing Laboratory Helps Saskatchewan Industry

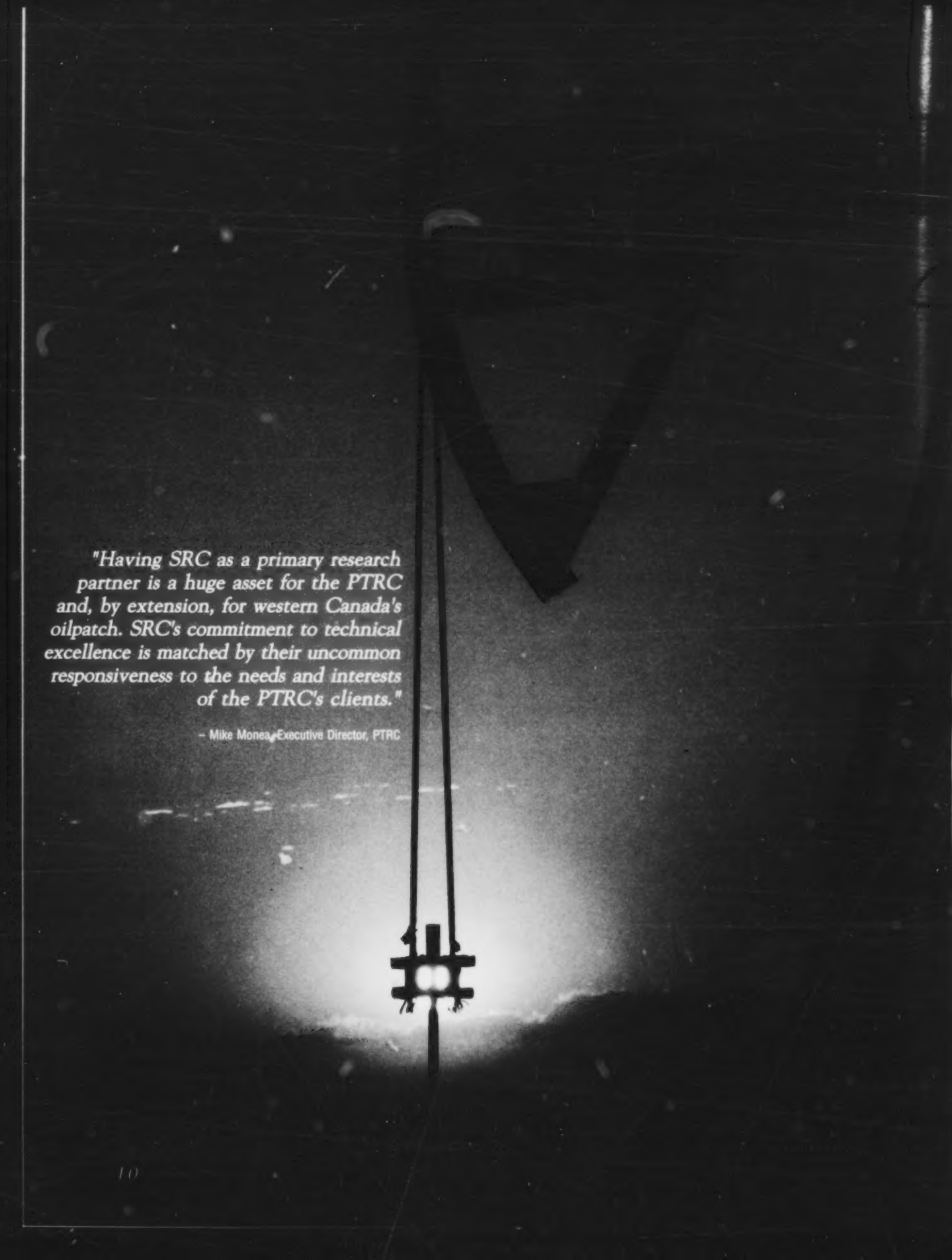
SRC operates a bio-processing laboratory that supports the Fermentation Pilot Plant by providing analytical services and process development capabilities. These complementary capacities were a factor in keeping IL Therapeutics Inc. (ILT), an


"SRC's capacity in analysis and product development remains a key factor in the continuing success of our company. Their presence in Saskatoon represents one of the benefits of conducting discovery and development stage biomedical research here. When bringing on a new product, being able to maintain a close relationship between your R&D team and the scale-up production facility is critical."
– Michelle Alting-Mees, Manager of R&D, IL Therapeutics Inc.

acute inflammatory disease company, resident and involved in Saskatoon's biotech sector when it spun off from the University of Saskatchewan's Western College of Veterinary Medicine (WCVM).

SRC was contracted by ILT in 2005 to optimize the production of recombinant G31P as well as to scale-up the production process from the laboratory bench to a commercial fermentor. ILT's decision to bring the work to SRC was made because of SRC's reputation for technical excellence as well as the proximity of SRC to ILT and the U of S, which facilitated efficient technology transfer. SRC also contributed funding to the project through the Agriculture Development Fund - SRC Industry Joint Venture Fund which helped to minimize the costs to ILT. The successful progression of G31P development led to the acquisition of ILT by Pacgen. Through Pacgen, ILT now has access to the global bio-therapeutics industry which has opened up new opportunities to bring further development work as well as new technical expertise into Saskatchewan

"SRC's capacity in analysis and product development remains a key factor in the continuing success of our company," says Michelle Alting-Mees, Manager of R&D at ILT. "Their presence in Saskatoon represents one of the benefits of conducting discovery and development stage biomedical research here. When bringing on a new product, being able to maintain a close relationship between your R&D team and the scale-up production facility is critical."



"Having SRC as a primary research partner is a huge asset for the PTRC and, by extension, for western Canada's oilpatch. SRC's commitment to technical excellence is matched by their uncommon responsiveness to the needs and interests of the PTRC's clients."

– Mike Monea, Executive Director, PTRC

What Makes a Heavy Oil Waterflood Work?

SRC's ongoing research on secondary and tertiary oil recovery aims to improve the productivity of the heavy oil industry, a mainstay of the Saskatchewan economy. One area of research assesses different waterfloods to determine which factors lead to improved recovery, and which to failure.

Waterflooding is the workhorse of the oil industry. Waterflooding techniques are well known and effectively applied to light oil—water is injected into a reservoir and the water both pushes and drags the oil to the surface, increasing oil production. However, what works with lighter oils does not always apply to Western Canadian heavy oil reservoirs.

Currently, there are more than 100 heavy oil waterfloods in Western Canada. Some of these projects are highly successful, recovering as much as seven times the primary recovery methods. Others are much less successful. Eight waterflood projects in the Lloydminster region, for example, have been abandoned over the past few decades.

SRC's current research uses multivariate statistical methods to understand the factors behind different results. Reservoir and operating parameters, such as incorporating horizontal injection and production wells, are assessed for their effects on the success of waterfloods.

Only a small fraction of heavy oil can be recovered with primary recovery methods. Identifying factors behind successful waterfloods could significantly increase the productivity of Saskatchewan's heavy oil fields.

Water-Assisted Pipeline Transport of Heavy Crude and Oil Sand Bitumen Studied

SRC's Pipe Flow Technology Centre is carrying out a study that aims to develop an improved technology for pipeline transport of heavy crude oils and oil sand bitumen. A consortium of oil sands and heavy oil-producing companies is funding the research.

The extremely high resistance to flow of these fluids makes conventional pipeline transport impractical. From earlier work carried out at SRC and elsewhere, it is known that a highly beneficial flow condition occurs if a small quantity of water is added to highly viscous oil flowing in a pipe. Under the right set of conditions, the water will form a sleeve that envelops the majority of the oil in the pipe and allows the bitumen or heavy crude to be transported easily with greatly reduced pumping energy requirements.

"Implementation of this new technology is not free of problems," says Dr. Randy Gillies, Distinguished Engineer of SRC's Pipe Flow Technology Centre. "Heavy crude oils and raw bitumen contain significant concentrations of sand and a serious problem arises if this sand accumulates in the pipelines. We are trying to solve the sand accumulation problem and other issues that stand in the way of successful implementation of this technology."

Water-assisted pipe flow technology will find application in existing heavy oil producing areas where trucks are currently used to collect the oil. Alternatives are urgently needed to reduce the high truck traffic on municipal roads in the heavy-oil producing regions of Saskatchewan and Alberta. The technology will also find application in bitumen production, both for conventional oil sand mining operations and for in situ recovery operations, adding value to Canada's energy reserves.

Vapour Extraction Enters Full-Scale Test Phase

SRC is a partner in a project to conduct full-scale

testing of solvent vapour extraction processes in Lloydminster's heavy oil fields. Sustainable Development Technology Canada is providing $3.2 million toward the $9.6 million project.

Vapour extraction uses a gaseous hydrocarbon solvent, generally propane or butane, which is injected into a well, where it dissolves in the oil through diffusion/dispersion. This reduces the oil's viscosity so it can be extracted efficiently. Once on the surface, most of the solvent can be stripped from the oil for reuse.

"It is sort of like dry-cleaning," comments Brian Kristoff, Manager of SRC's Enhanced Oil Recovery Field Development Business Unit. "The reservoir is 'washed' with solvent to extract the oil. In an ideal situation, most of the solvent is recycled and the system operates in a loop, with small amounts of energy used for solvent compression and extraction."

Known by the acronym JIVE (Joint Implementation of Solvent Extraction), the project is aimed at improving heavy oil recovery while reducing the large amounts of energy and water used in conventional extraction. Solvent vapour extraction requires no water and can reduce energy consumption by up to 90%.

The current phase of the project will make use of research from a pre-JIVE program. It involves several partners, including the Petroleum Technology Research Centre (PTRC)—in which SRC is a founding Member—three private energy companies, Nexen, Husky Energy, and Canadian Natural Resources Limited, the Alberta Research Council, and SRC.

"The project has excellent potential," says Kristoff, "but some technical challenges must be overcome. The rate of solvent uptake and potential solvent losses are particularly tricky issues. Solvent loss is a concern because you are injecting something more expensive than what you are trying to recover."

Continuous improvement of oil recovery methods is increasing the economic potential of Saskatchewan's heavy oil resource while reducing the environmental impacts of the industry.

Supercritical CO_2 Treatment of Cellulose for Ethanol Production

Supercritical CO_2 is an environmentally-friendly solvent that has been used in a number of industrial applications over the last twenty-five years. Both price-competitive and non-toxic, supercritical CO_2 processing has replaced traditional solvent extraction in processes including the decaffeination of coffee and tea, for example.

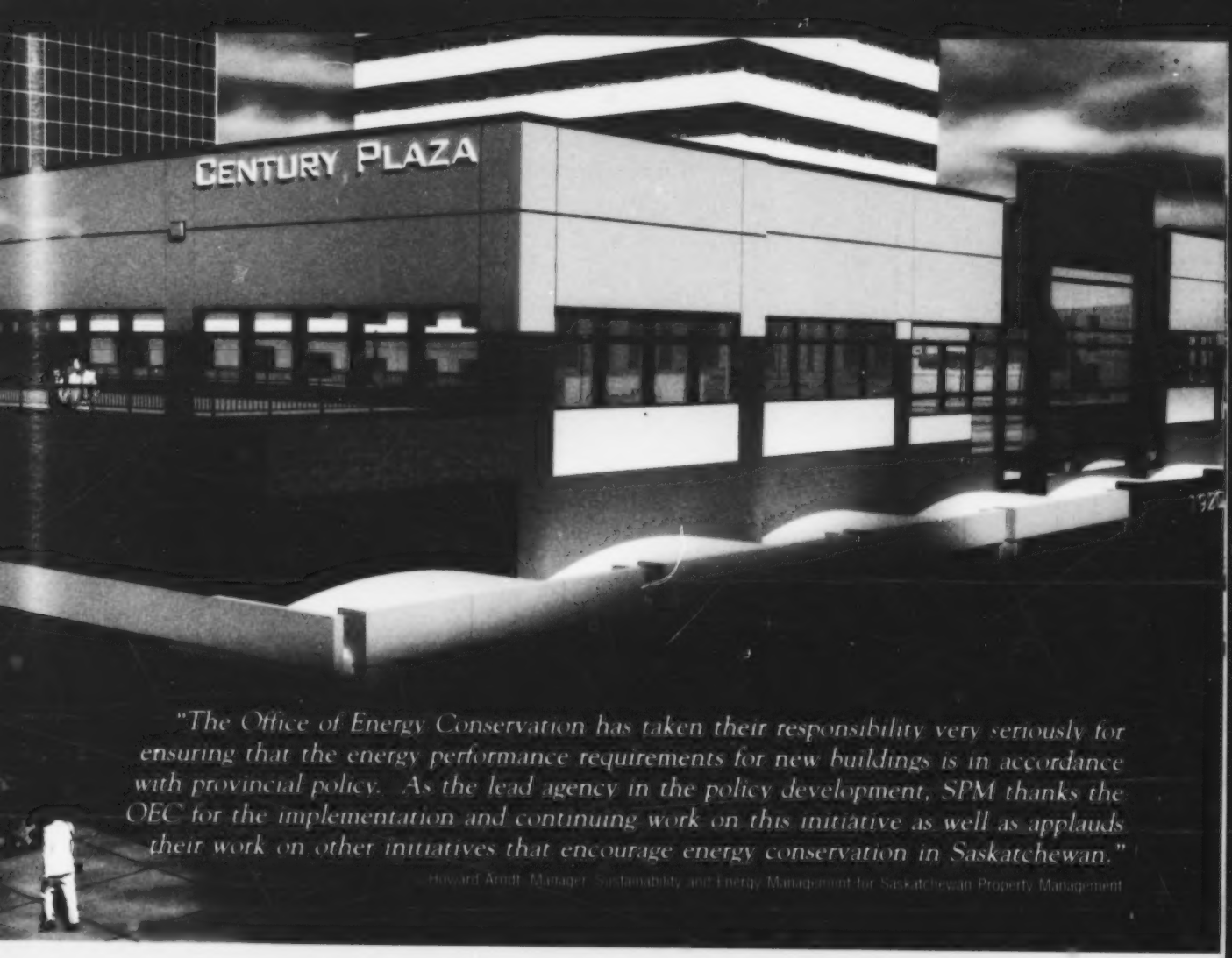
This year, SRC evaluated the use of supercritical fluids processing for pre-treating biomass prior to enzyme hydrolysis and fermentation to make ethanol. As well, the ability of the process to produce co-products in a traditional grain fermentation plant was assessed. The work was funded by Natural Resources Canada.

Biomass is expected to become an increasingly important source of energy in the future. Saskatchewan farmers and Northern communities stand to gain significant new markets through projects to produce ethanol, biodiesel, and other forms of bioenergy from agricultural byproducts. SRC is playing a critical role in developing and testing technologies designed to improve the efficiency and lower the cost of biofuel production.

Energy Efficiency Standards in Government Buildings Bring Cost Savings

Saskatchewan's Office of Energy Conservation (OEC), which is managed by SRC, is providing technical assistance in a program designed to increase the energy efficiency of buildings in the province. The program requires all new government, crown, agency, and other commercial buildings receiving at least 30% of their capital funding from the Province to be a minimum of 25% more efficient than the Model National Energy Code for Buildings (1997).

OEC has entered into a contribution agreement



"The Office of Energy Conservation has taken their responsibility very seriously for ensuring that the energy performance requirements for new buildings is in accordance with provincial policy. As the lead agency in the policy development, SPM thanks the OEC for the implementation and continuing work on this initiative as well as applauds their work on other initiatives that encourage energy conservation in Saskatchewan."

Howard Arndt, Manager, Sustainability and Energy Management for Saskatchewan Property Management

with Natural Resources Canada to promote both the provincial energy efficiency requirements and the federal Commercial Building Incentive Program (CBIP). CBIP can be used by builders to comply with provincial energy efficiency requirements.

Seventy-seven buildings, encompassing over 302,000 m^2 of conditioned space and having a capital value of over $770 million, fall under the provincial initiative. Positive results of the project are already demonstrated in 19 of these buildings, which are expected to realize annual utility savings of $680,000. Seventeen buildings are expected to avoid emissions of 6,100 tonnes of greenhouse gases each year.

"The Office of Energy Conservation has taken their responsibility very seriously for ensuring that the energy performance requirements for new buildings is in accordance with provincial policy," says Howard Arndt, Manager, Sustainability and Energy Management for Saskatchewan Property Management. "As the lead agency in the policy development, SPM thanks the OEC for the implementation and continuing work on this initiative as well as applauds their work on other initiatives that encourage energy conservation in Saskatchewan."

Even some buildings not required to meet the provincial energy standard are taking advantage of potential cost savings and voluntarily pursuing improved efficiency. OEC's review of one such project indicated energy savings of 46% were achieved.

OEC's work helps to develop a building sector with lower operating costs and higher environmental performance, contributing to a green and prosperous Saskatchewan.

"Cooperation between the Saskatchewan Research Council (as the analytical resource) and CanNorth Environmental (as consultants) with Droycon (as the manufacturer) enabled a very smooth and effective analysis of some of the features in the T-COLI-BART coliform bacteria test system."

- Roy Cullimore, President at Droycon

Protecting Saskatchewan's Water Resources

SRC has been involved in a number of projects that help protect Saskatchewan's water resources. The projects vary in scope from groundwater mapping, to water testing and remediation.

Groundwater has played an important role as a water source in Southern Saskatchewan, particularly in the rural areas. SRC's Hydrogeology Business Unit has been a leader in mapping these groundwater resources and has already completed two generations of geology and groundwater maps.

With the support of the Canada-Saskatchewan Water Supply Expansion Program (CSWSEP) of Agriculture and Agri-Food Canada and the Saskatchewan Watershed Authority (SWA), SRC has now started to draw third-generation maps in a Geographic Information System environment. These maps will ultimately be web-based.

The quality of Saskatchewan's groundwater is important in terms of health, economic development and agriculture. However, information on the quality of groundwater is not readily available because it is spread among various databases and numerous paper documents. SRC is now developing a centralized provincial database of natural groundwater, also with the support of CSWSEP and the SWA.

"The accessibility of information and the transfer of knowledge to the public are perhaps the largest challenges faced when managing the groundwater resources of Saskatchewan," says John Fahlman of Saskatchewan Watershed Authority. "The replacement of products from strictly a paper medium to the more dynamic GIS web-based format is expected be a significant step to that end. It also provides an opportunity to include new data, to further refine the products and add further value."

In addition, SRC Analytical Laboratories and Canada North Environmental Services (CanNorth) have collaborated with Droycon Bioconcepts Inc. to field test Droycon's T-COLI-BART tester, a new technology for the detection of total coliform bacteria in water. Droycon is a Regina biotechnology company focused on environmental management.

The laboratory test for total coliform bacteria is the primary bacterial test to qualify water potability. Droycon's product is a simple tester that can be used as an early warning system for bacteria at water treatment plants.

"Cooperation between the Saskatchewan Research Council (as the analytical resource) and CanNorth Environmental (as consultants) with Droycon (as the manufacturer) enabled a very smooth and effective analysis of some of the features in the T-COLI-BART coliform bacteria test system" says Roy Cullimore, President of Droycon.

The demonstration project placed the tester at five First Nations communities in the La Ronge area. Treatment plant operators provided testing for a period of six months, following a one-day training session. Results are promising. The next step is to perform detailed statistical analysis to verify the technology's performance.

Due to concerns about the potential for water contamination in northern Saskatchewan, SRC has conducted preliminary work to commence an environmental assessment and cleanup of a number of former uranium mine sites near Uranium City, including the Gunnar mine.

The project involved a review of existing information and current conditions at the site. Information collected to date indicates that risks to human health due to radiation are low. However, existing buildings and exposed asbestos insulation present public safety concerns. Work was also conducted on potential remediation options,

including the clean-up of any water that might be contaminated.

SRC's broad range of work on water resources, not only helps ensure the safety of drinking water through testing, but also the sustainability of the water supply through research and application of technologies.

Improving Saskatchewan's Air Quality

Federal and provincial regulations are being strengthened to improve air quality by reducing atmospheric emissions of industrial pollutants. SRC is assisting Saskatchewan companies in monitoring their emissions and preparing for stricter regulatory standards.

"SRC has been helping industry monitor atmospheric emissions for a number of years," reports Keith Wallace, Manager of SRC's Air and Climate Business Unit, "and our work in this area is now expanding. Industry is aware that new Canada-wide standards for various emissions are coming. Environment Canada is reviewing standards for the steel industry, for example, and we have been helping IPSCO prepare to meet those standards. SRC is also providing monitoring for the potash and uranium industries."

SRC's work in air emissions monitoring and control contributes to a cleaner environment and improved public health.

Research on Greenhouse Gas Emissions

SRC has acquired instrumentation for measuring greenhouse gas (GHG) emissions, anticipating that a number of clients considered "Large Final Emitters" of GHGs will be required both to report actual (rather than estimated) emissions to the federal government and to lower these emissions.

The TEMET portable multi-gas analyzer is a new emission gas analyzer that complements existing SRC services and extends the number of exhaust gases that can be monitored for GHGs. The unit has been demonstrated to a number of Saskatchewan companies.

About two-thirds of Saskatchewan's electrical energy is produced by burning coal. Current coal technology is inefficient and produces large amounts of GHGs. SaskPower is currently considering cleaner and more efficient coal technologies.

SRC is supporting this process by investigating the potential for improving conventional coal plant energy conversion with the integration of organic Rankine-cycle technology. The goal is to find energy efficiencies and GHG emission reductions at costs lower than so-called clean coal technology.

Climate change is considered a major threat to the planet's ecosphere. Activities are underway at SRC to help clients assess, mitigate and adapt to this problem.

Predicting Impacts of Climate Change Around the World

SRC has been applying its climate change expertise and knowledge to better understand impacts and adaptations in Saskatchewan and around the world.

SRC is taking part in a joint project involving Chilean and Canadian research institutions investigating institutional capacities to adjust to climate change impacts on water resources in the two countries. The research aims to identify and compare climate change adaptation options at the institutional and community levels.

The Coquimbo Water Basin in north-central Chile is similar in some respects to what the South Saskatchewan River Basin could be like in the future. Both regions have a dry climate adjacent to a major mountain system, landscapes at risk of desertification, and agricultural economies dependent on irrigation water derived from mountain snow and glacier run-off. As a result of drier conditions and increased climatic uncertainty, these areas are likely to be similarly affected by climate change.

"The uncertainty associated with climate change impacts in the boreal forest imposes direct operational impacts to forestry companies dependent on cold temperatures for access purposes. Due to warmer than usual temperatures during the winter of 2005/06 (the warmest winter on record to date across Canada), construction of this icebridge in the Waterhen East Operating Area of Mistik Management Ltd.'s (Meadow Lake, Saskatchewan) Forest Management Agreement (FMA) area was delayed by five weeks."

- Al Balisky, Planning Manager of Mistik Management Ltd.

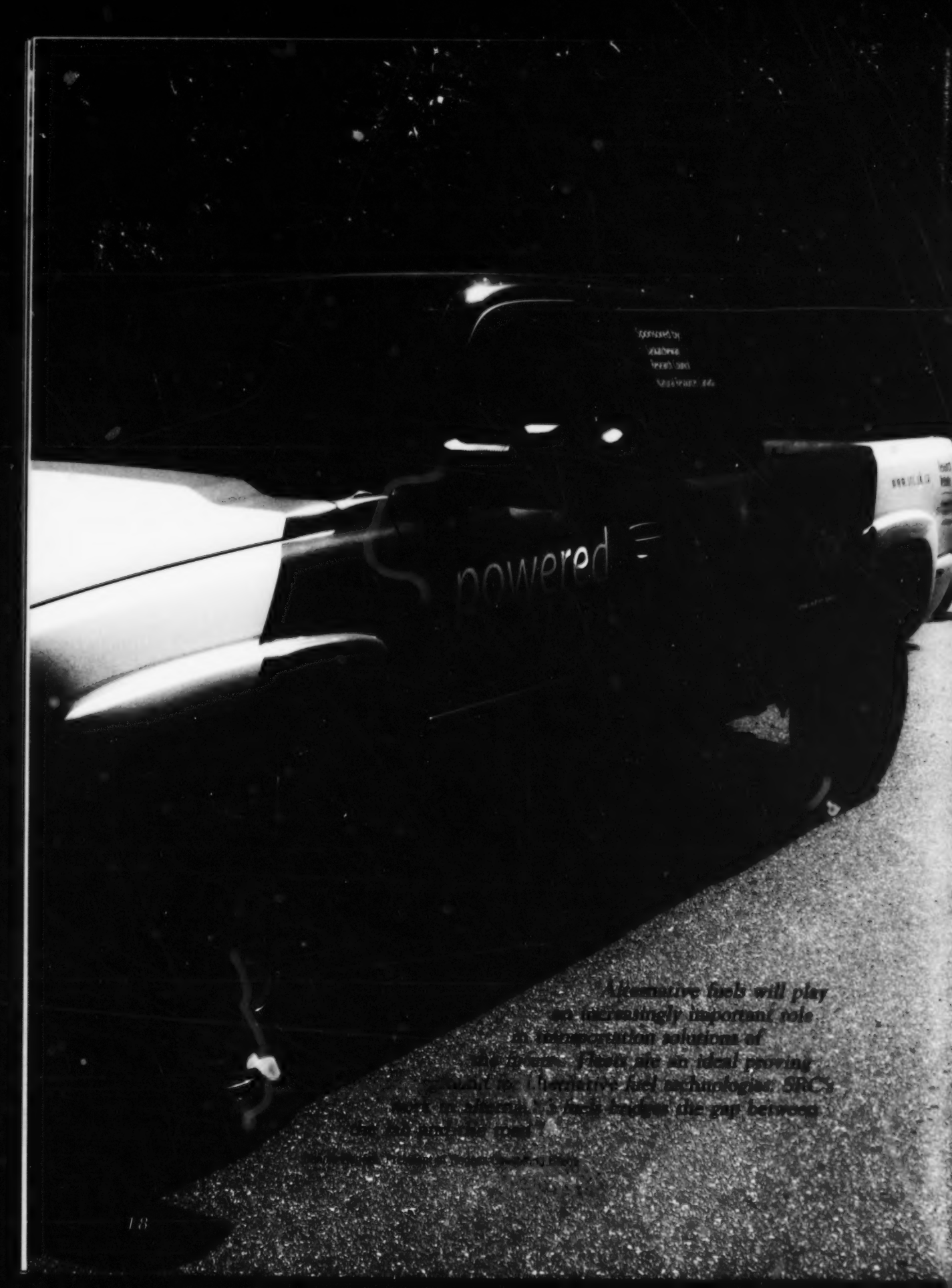
SRC has contributed to the project by investigating the impacts of recent droughts on two Saskatchewan communities, Cabri and Stewart Valley. The nature of the adaptation measures taken and their effectiveness in coping with drought will also be explored.

SRC is also investigating potential impacts of climate change on Saskatchewan's forest industry. Impacts on future stand yields of white spruce and on forest fires were investigated. The results suggest that stand productivity increases under most future scenarios, but decreases under extreme drought. However projected increases in fire damage have offset these productivity increases.

SRC collaborated with Mistik Management Ltd., a woodlands management company based in Meadow Lake, to incorporate climate change impacts in a revision of their 20-year forest management plan. One projected impact of warmer weather is that winter harvest operations may no longer be possible in wetter areas if the ground does not freeze. This could require significant changes to harvesting plans.

"The uncertainty associated with climate change impacts in the boreal forest imposes direct operational impacts to forestry companies dependent on cold temperatures for access purposes," says Al Balisky, Planning Manager of Mistik Management Ltd. "Due to warmer than usual temperatures during the winter of 2005/06 (the warmest winter on record to date across Canada), construction of this icebridge in the Waterhen East Operating Area of Mistik Management Ltd.'s (Meadow Lake, Saskatchewan) Forest Management Agreement (FMA) area was delayed by five weeks."

Climate change poses significant threats to Saskatchewan's environment and economy. SRC is contributing to strategies to respond to this threat at home and around the world.



Alternative fuels will play an increasingly important role in transportation solutions of the future. Fleets are an ideal proving ground for alternative fuel technologies. SRCs [illegible] helps bridge the gap between [illegible]

4 Manufacturing and Value-Added Processing

Nine Alternative-Fuel Vehicles Tested

When Regina played host to the 2005 Jeux Canada Games, the pace vehicle for four of the cycling events was an environmentally-friendly, hydrogen-fuelled pick-up truck, which SRC and partners developed. The truck is one of nine vehicles developed by SRC that operate on alternative fuels including natural gas, hydrogen, and hydrated ethanol.

A truck that operates on hydrated ethanol and uses a novel dual-fuel control system was developed by SRC in 2005. The system was designed to use hydrated ethanol, which contains 5% water, in conjunction with a conventional fuel. Hydrated ethanol is relatively inexpensive to produce in rural Saskatchewan, making it an excellent fuel option on the prairies.

The vehicle operated successfully with an ethanol substitution rate of up to 67%. At 21% substitution, fuel economy showed a 12% improvement, nitrous oxide emissions were down 42%, and hydrocarbon emissions were zero.

"Alternative fuels will play an increasingly important role in transportation solutions of the future," says Dennis Rogoza, President of Rogoza Consulting Group. "Fleets are an ideal proving ground for alternative fuel technologies. SRC's work in alternative fuels bridges the gap between the lab and the road."

To support alternative fuels, SRC is also developing a damage detection system for carbon-fibre reinforced tanks capable of carrying highly-pressurized gases. SRC's neural fuel systems technology and electronic gas regulators will allow a range of existing vehicles to be converted safely to alternative fuels.

SRC's vehicle conversions are considered a bridging technology that will help to facilitate a widespread adoption of greener, alternative transportation fuels for internal combustion engines and fuel cells in the future.

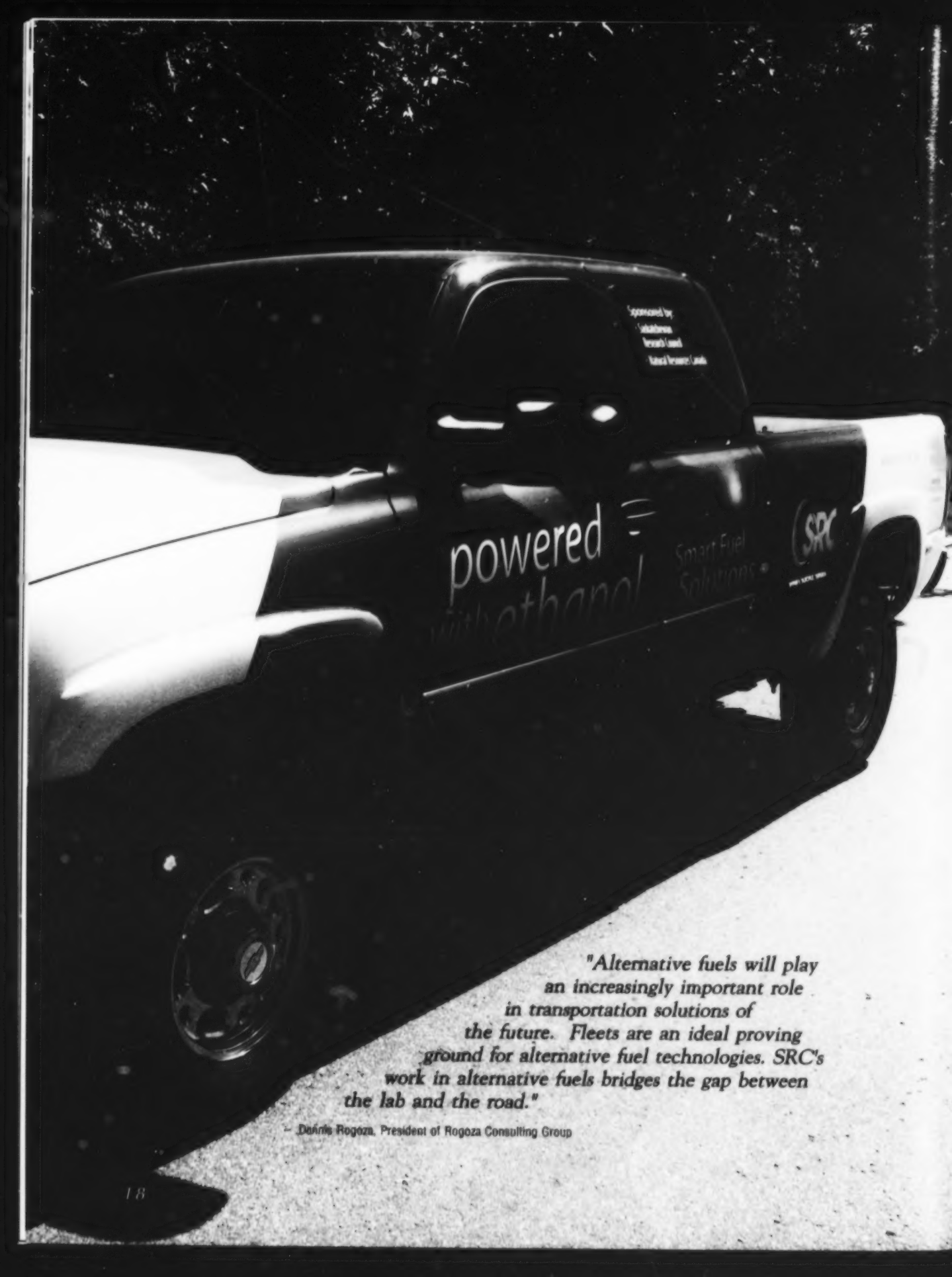
Saskatchewan Ice-Rink Expertise Heads Down Under

Skating, curling and hockey are not usually associated with Australia, where hot weather and humidity make it particularly difficult to maintain proper ice conditions economically. However, there are several Australian ice rinks and one of them, part of a recreation complex in the city of Greater Bendigo, is looking to Canadian expertise and technology to help reduce its energy consumption and operating costs.

SRC's Building Performance Business Unit and the Saskatchewan OEC have been collaborating with Natural Resources Canada's CANMET Energy Technology Centre on the promotion of technology to cut energy use at Canadian ice rinks. OEC contacts in Australia were interested in accessing this expertise.

As a result, SRC's extensive experience was utilized to produce an energy-efficiency manual that highlights Canadian best practices applicable to Greater Bendigo. It is being used as the basis for the preliminary design of the Greater Bendigo facility, as well as for obtaining financing.

A number of Saskatchewan skating and curling arenas have adopted energy conservation measures, such as efficient lighting or capturing waste heat from ice compressors for use elsewhere in the building. With the support of SRC and its partner agencies, Canadian energy technologies are being spread to the farthest—and sometimes the most unlikely—corners of the planet.



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Retrofits of Multi-Unit Residential Buildings

Multi-Unit Residential Buildings (MURBS) often present significant opportunities to reduce operating costs through energy conservation measures. Over several years, SRC's Building Performance Business Unit has conducted energy audits on more than 50 MURBS throughout the province for the Saskatchewan Housing Corporation (SHC). SHC has performed a number of upgrades, such as installing more efficient lighting in hallways and stairwells, resulting in significant annual cost savings.

SRC is now revisiting these buildings to follow up on the audits and identifying additional cost-effective retrofit options. Sixteen buildings were reviewed over the past year and the work with SHC calls for reviews of all 50-plus audits. SRC is also collaborating with a university student on a project to assess a major energy retrofit on one of SHC's buildings.

Energy retrofits can mean lower costs for renters and government, and significant reductions in greenhouse gas emissions.

Establishing Baseline Energy Data for New Commercial Buildings

North America is going through a revolution in building design. Major improvements in energy and environmental performance are now available at a relatively small capital cost premium compared to long-term operating cost savings. SRC is aiding the process by conducting a baseline energy study on new commercial buildings to establish current energy usage data for use in future design applications.

"Before we can implement a new standard for energy performance in new commercial building design, we need basic information about the current energy performance of new commercial buildings," says Tom MacDermott, Manager of SRC's Building Performance Business Unit. "We need baseline data on new buildings so we can adopt new standards that are both a significant improvement over existing performance and at the same time achievable."

SRC and the Saskatchewan Office of Energy Conservation are analyzing a number of new commercial buildings in Saskatchewan and Manitoba to determine their level of energy efficiency. The buildings will then be compared to the Model National Energy Code for Buildings (MNECB) (1997) and the requirements of Natural Resources Canada's Commercial Building Incentive Program (CBIP). Staff will then identify the potential incremental energy savings that would be achieved in moving from current construction standards to MNECB or CBIP standards. They will also identify common technologies and techniques that, if integrated into new commercial building construction, would allow new buildings to meet these standards.

"When the Building Standards Unit of Saskatchewan Corrections and Public Safety needed research to support anticipated development of energy performance standards in new commercial buildings, we went to the Saskatchewan Research Council," says William N. Hawkins, Chief Building Official, Building and Fire Safety, Saskatchewan Corrections and Public Safety. "They created a baseline study for us that meets our needs. When completed, this research will provide us with the answers needed to develop a comprehensive energy performance standard. We've counted on the SRC because we know they deliver."

Ultimately, this project will contribute to lower operating costs for the commercial building sector, reduce energy consumption, and reduce emissions of greenhouse gases and other energy-related emissions that reduce air quality.

Low / Zero Net Emission Housing Investigated

He has already built the best-insulated house in the world, but Dr. Rob Dumont, Principal Scientist in SRC's Building Performance Business Unit, wants to take the process a step further. In fact, his goal is low / zero net emission housing.

The Dumont House in Saskatoon is so well insulated it does not need a furnace. However, the house continues to use about 13,500 kWh of electricity a year. A project is underway to see if electrical consumption can be lowered dramatically, to about 5,000 kWh per year. Supplying this smaller amount of power using a solar photovoltaic system would then be more affordable, resulting in zero emissions of greenhouse gases.

With funding from Natural Resources Canada, electrical loads in the house were measured along with the total annual energy consumption. Measures to radically reduce electrical consumption were investigated, including repairing the active solar space heating panels, purchasing new energy-efficient appliances, and using a ground source heat pump.

It is anticipated that the next stage of the project will involve implementation of the conservation measures, which would result in one of the most energy-efficient and environmentally-friendly houses in the world.

In October 2005, SRC was involved in the sod-turning ceremony for an innovative new home in Regina that will use 90% less energy than conventional housing. Called the Factor 9 Home, the single-family residence will be designed and outfitted by SRC. The major sponsors of the work include Communities of Tomorrow and the Saskatchewan Office of Energy Conservation.

"With rising energy costs, we are pleased to be involved in this project," says Factor 9 homeowner Rolf Holzkaemper. "We expect significant energy and power savings with a reasonable payback period."

The demonstration project will showcase energy and environmental features, including exterior site issues and water use, indoor environment, recycling of household waste, construction waste management, low-embodied energy of building materials and building durability. It is expected to use 50% less water than conventional housing, for example.

Both projects offer the opportunity to demonstrate best practices in sustainable housing, contributing to a more energy-efficient, environmentally-friendly and cost-effective housing sector in Saskatchewan.

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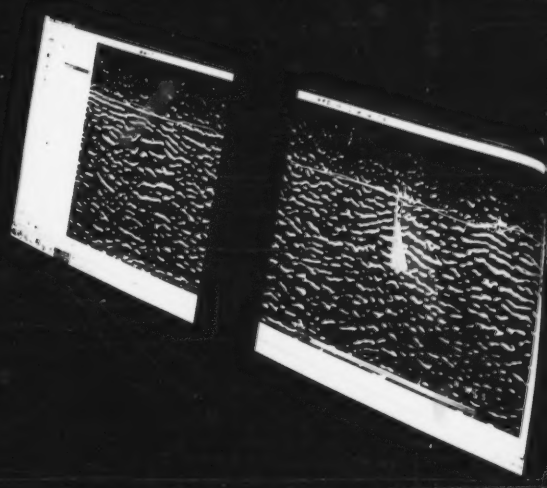
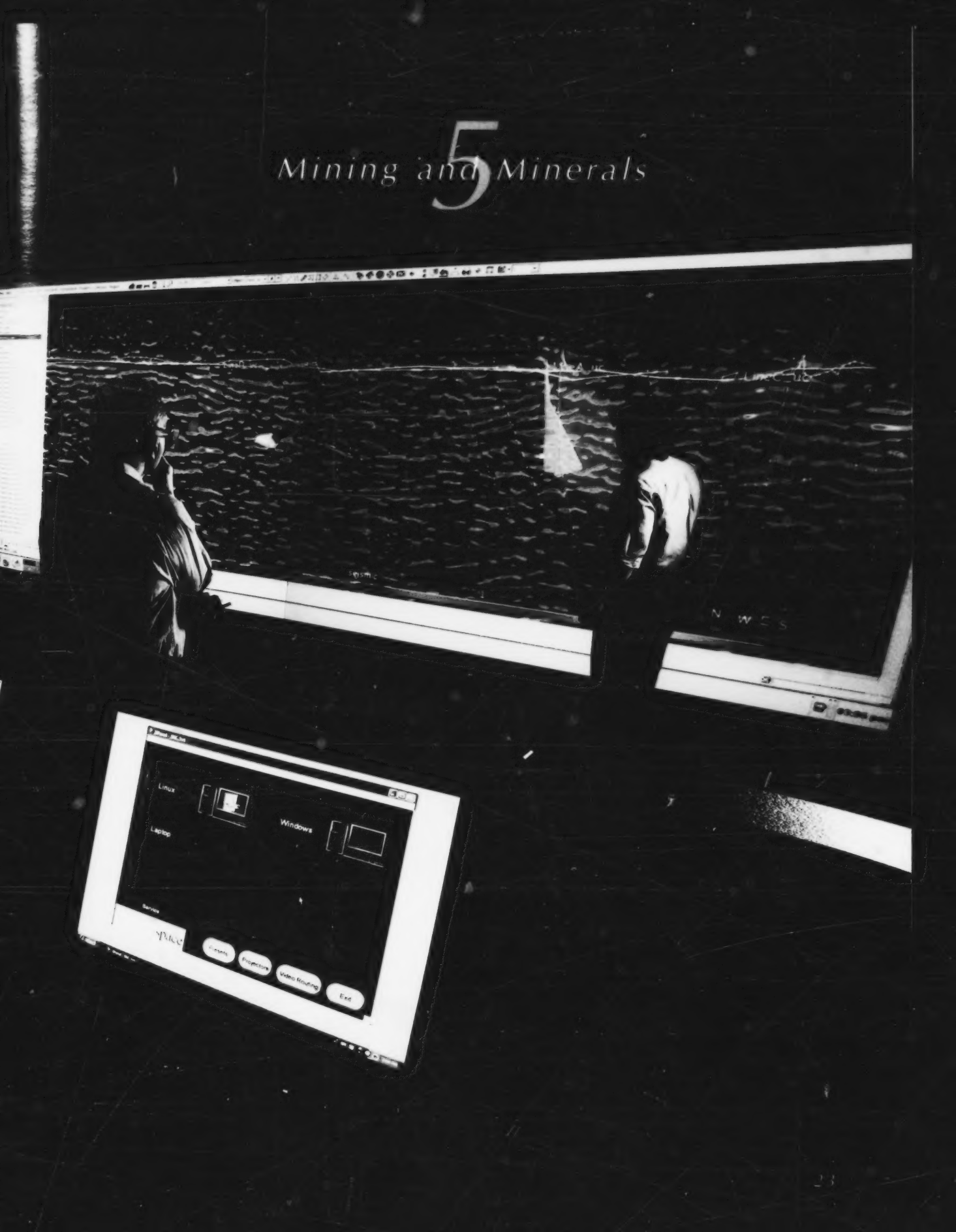


5 Mining and Minerals



5 Mining and Minerals

3D Virtual Reality and Modelling Facilities Open

Saskatchewan's current mining boom is contributing to advances in support technologies. One example is SRC's 3D Virtual Reality Centre which opened in 2005. Although applications of this facility are not restricted to mining, there are many potential benefits of the technology for mining and mineral exploration companies.

The Centre allows professionals to put on virtual reality glasses and observe three-dimensional conceptual models of data. A mining geologist or engineer can view a 3D model of an ore body to identify rich deposits, plan mine shafts and pillars, and predict the outcomes for various options. A miner would be able to examine an ore body, look at it from different perspectives, zoom in and out and find details in the model.

There are many practical applications for 3D modelling in energy and mineral resources, forestry, climatology, agriculture, medical/health, environment, biotechnology, and synchrotron research activities.

"We see a lot of potential for this technology," says Dr. Irvine Annesley, Manager of SRC's Mineral Exploration Business Unit. "It can contribute to increased productivity and competitiveness in many industries, fostering new economic activities and growth."

The strategic technological initiatives and applications of the facility help build on Saskatchewan's current strengths while promoting leading-edge research that can bring new discoveries and diversification in many sectors. Annesley says the facility provides important opportunities for collaboration between industry, research organizations and universities in ways that encourage and increase the participation of our younger people in the knowledge-based economy.

The SRC 3D Virtual Reality Centre was initially constructed with $250,000 funding from the Canada and Saskatchewan government's Western Economic Partnership Agreement program. SRC matched the $250,000 and invested an additional $235,000 in hardware and software to enhance the capabilities offered at the Centre.

The centre is a true collaborative effort. The University of Saskatchewan, for example, assisted with system design and operation and will eventually provide access to West Grid, a community of university computer centres. It will be effective in evaluating large volumes of 3D tomography data generated by users of the Canadian Light Source synchrotron. It is also expected to generate significant industry participation through applied research.

"Saskatchewan companies are now able to use a local leading-edge facility," says Annesley, "instead of traveling to other parts of Canada."

The SRC 3D Virtual Reality Centre uses 3D visualization and modelling software packages, specifically designed for geoscience applications. The models can be used to check and validate hypothesis and data consistency. They can also be used with geostatistics and queries to define different mineralized envelopes of a particular deposit and can be developed as a prospective tool for ongoing exploration programs.

The centre has begun to work on projects for the uranium and potash industries. 3D models are a very efficient tool for characterizing the geometry of uranium showings/deposits, deciphering the complex phenomena leading to mineralization, and identifying vector tools for locating new deposits.

The Centre is being used presently on the JNR/IUC Moore Lake and Roughrider Uranium Russell Lake uranium projects.

"The 3D Visualization centre has proven to be invaluable in our exploration efforts on the Moore Lake uranium project," says Dave Billard, Exploration Manager at JNR Resources Ltd. "During the course of the years we have collected a diverse suite of large data sets. The Centre, and the SRC's expertise, has greatly improved our ability to successfully merge these data sets into a coherent 3D model. This model is being used for planning current and future exploration programs, and has proven to be indispensable to our understanding of the Moore Lake uranium deposit."

SRC's development of this new industry tool is helping to build and diversify Saskatchewan's knowledge-based economy.

Cigar Lake Freeze Hole Survey Program

A freeze hole survey program began in 2005 at Cameco's Cigar Lake uranium mine. The program involves drilling a number of holes 50 to 70 metres long and approximately 15 centimetres in diameter upwards from underground tunnels into the uranium ore. The purpose of these holes is to hold piping that will circulate low temperature fluid around and through the underground ore body. The cold fluid causes the material to freeze, making it possible to extract the ore through jet boring methods.

"SRC provided a system using air propulsion to carry deviation and radiometrics probes up each hole," reports Kim Young, Manager of SRC's Development Engineering Business Unit. "The radiometrics probe provides a radiation profile of the underground ore along the freeze hole length. The deviation probe gives an absolute indication of the hole's direction and length. The probes enable geologists to accurately map out the location of the freezing and determine the ore quality."

SRC is involved in a variety of activities to support Saskatchewan's mining sector, including instrumentation and product engineering to develop innovative devices to support new mining methods. Advanced technologies contribute to the productivity and profitability of Saskatchewan companies, ensuring maximum returns from Saskatchewan's mineral wealth.

SRC Expands Services to Match Mining Boom

Activity in both diamond and uranium exploration is exceptionally strong in northern Saskatchewan at this time. SRC is expanding its capacity to meet the growing demand from the mining industry for geological support and mineral analysis.

The uranium boom is being driven by the spot price of uranium, which has sharply risen in recent years in response to a rapidly increasing gap between supply and demand. Already the world's top producer of mined uranium, Saskatchewan is in a strong position to meet the growing demand around the world.

Meanwhile, anticipation is high that diamond mining will be a viable new industry in Saskatchewan in the near future. Diamond exploration added about $55 million to the Saskatchewan economy in 2005 and 2006 estimates put anticipated expenditures for 2006 at $74 million. At that level of spending, numerous people will be employed in diamond exploration in the province this year.

In addition to providing support for exploration activities, SRC operates dedicated uranium and diamond laboratories. SRC's Geoanalytical Laboratories' workforce has grown fivefold—from under 20 to around 100—in the last two years. The uranium laboratory was working double shifts five days a week, with extra shifts working on the weekends as well.

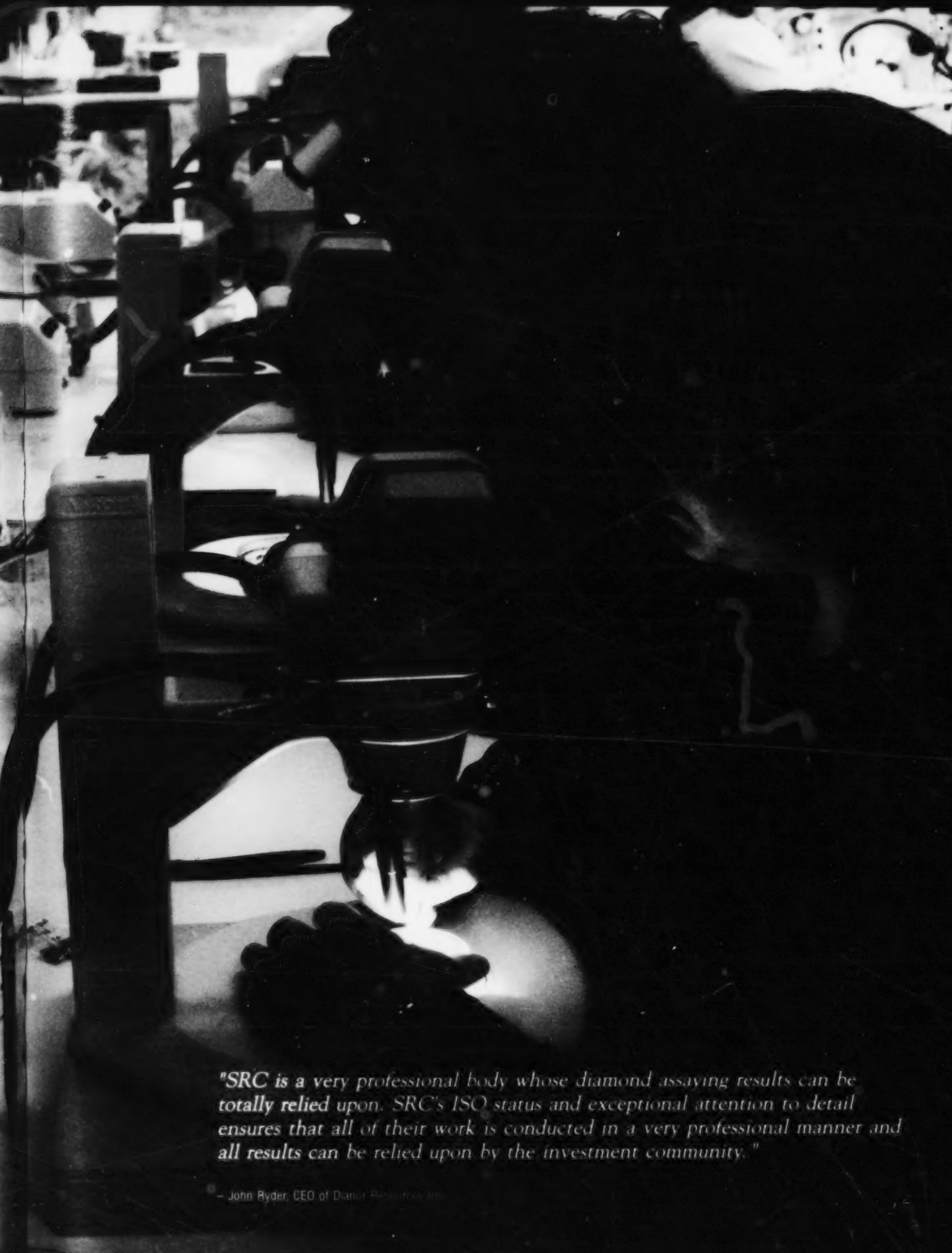
SRC operates the only full-service diamond lab in the Prairie Provinces. Plans are now underway to build a much larger facility to handle the even higher volumes anticipated. SRC currently operates two secure, ISO 17025-certified facilities at Saskatoon's Innovation Place, each fully contained under one roof. All aspects of the analytical process, including ore processing and diamond extraction and observation, occur without the samples leaving the facilities, which is unique in the North American industry.

"SRC is a very professional body whose diamond assaying results can be totally relied upon," says John Ryder, CEO of Dianor Resources Inc. "SRC's ISO status and exceptional attention to detail ensures that all of their work is conducted in a very professional manner and all results can be relied upon by the investment community."

SRC's labs are already considered one of the largest "observation houses" in Canada. A new building in north Saskatoon will soon provide considerably more space. The new lab will be approximately 15,000 sq. ft. and have opportunities for future expansion. The new lab is slated to open in March 2007, at which time SRC's diamond processing capacity will expand by another 80%.

In addition to its work in uranium and diamonds, SRC offers a range of services for potash, gold and base metal mining, from exploration through decommissioning and remediation. Services include predictive mineral exploration models, tools and strategies based on understanding geological processes, rapid, confidential mineral exploration services, and hydrogeological and environmental support. Additional capabilities include instrumentation and product engineering, as well as research and development in pipe flow technology and value-added processing.

SRC supports the continuous development and expansion of Saskatchewan's mining sector by increasing its capabilities with new tools and techniques, and expanding its own operations to meet industry demands.



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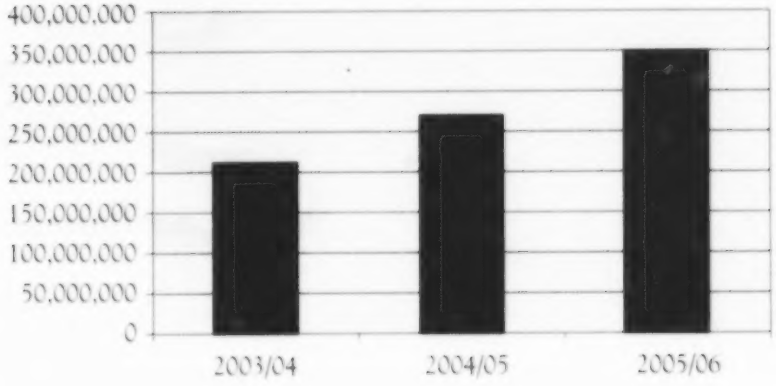
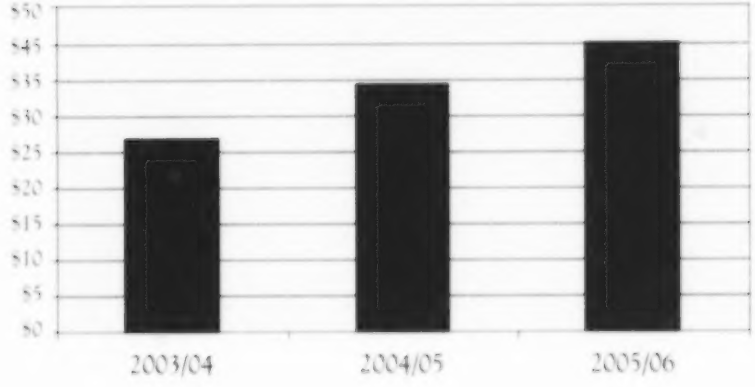
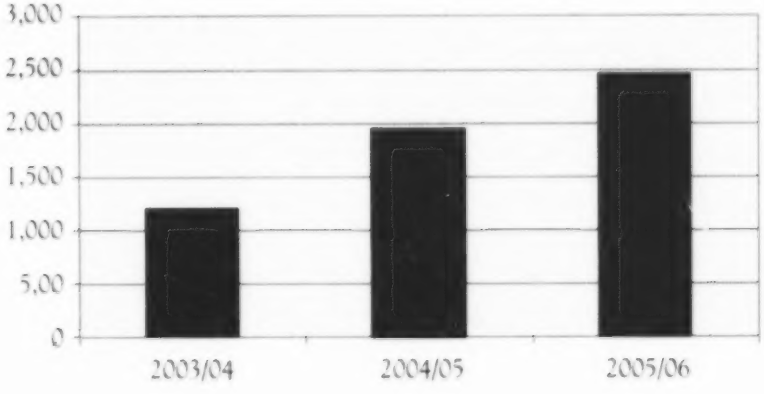
$ Impact in Saskatchewan



Mandate Effectiveness



Jobs Created/Maintained in Saskatchewan



Corporate Performance

SRC's Key Performance Indicators (KPIs) are quantifiable measurements, determined in advance, that are intended to reflect the critical success factors for the corporation. The KPIs were developed to help define and measure progress towards key organizational goals. Properly developed and implemented, regularly monitored, and if interpreted in the context of SRC's mandate, mission and key goals, the KPIs serve as indicators of progress towards achieving SRC's definition of organizational success.

In total, SRC has determined eight key areas to monitor for performance. Each area has a repertoire of measures. The eight KPIs and a general description are provided below.

KPI #1. Shareholder Value

The objective of KPI #1 is to strengthen the Saskatchewan economy with quality jobs and a secure environment through the responsible application of science and technology. This objective includes measurement of SRC's economic impact in Saskatchewan including jobs that were created or maintained. It also encompasses environmental and/or social impacts.

KPI #2. Financial Management

The objectives of KPI #2 are that we provide a positive financial return, utilize provincial investment (PI) appropriately, and purchase appropriate capital assets each year. All areas of SRC contribute to these objectives by managing business operations to achieve budget net income, or delivering services within their established budgets. In addition, investment in renewed and new capital capabilities for the future is forecasted and tracked.

KPI #3. Client

The objective of KPI #3 is that we understand and deliver quality results that SRC's clients value. We obtain measurement data directly from our clients via SRC's client feedback survey.

	2005/06	2004/05	2003/04
Client Satisfaction:			
% of clients that would return to SRC	98%	99%	96%
% of clients that would refer SRC to others	97%	98%	94%
Satisfaction rate (i.e. Very Satisfied or Satisfied)			
overall quality of the product or service received	98%	n/a	100%
delivery time relative to the time line SRC proposed	89%	91%	93%
value of the product or services received compared with the price	89%	83%	n/a
usefulness of the technical results	95%	96%	98%

KPI #4. Growth

The objective of KPI #4 is that we grow SRC's revenue base in order to achieve and maintain critical mass in each business area, to be able to expand our service offerings, and to be able to deliver additional impacts under KPI #1.

KPI #5. People

The objective of KPI #5 is to develop, inspire and motivate SRC's employees. This objective is shared among all parts of SRC's operations. Measurement criteria include employee satisfaction, appropriate training options, providing a safe and healthy workplace, a workplace that values diversity, and performance-based compensation.

KPI #6. Sustainable Development

The objective of KPI #6 is to have SRC conduct business in a socially and environmentally responsible manner. This objective is shared among all parts of SRC's operations. Projects will vary in scope and may include, for example, initiatives aimed at increasing recycling, increasing energy efficiency in our facilities, and the management of our equipment.

KPI #7. Technical Excellence

The objective of KPI #7 is to have SRC achieve, and receive recognition for, technical excellence. All areas are responsible for championing the development and maintenance of technical excellence.

KPI #8. Internal Process Excellence

The objective of KPI #8 is to have SRC achieve and maintain excellence in its internal processes, including operational efficiency, internal management and leadership, visibility and recognition, risk management, and quality management.

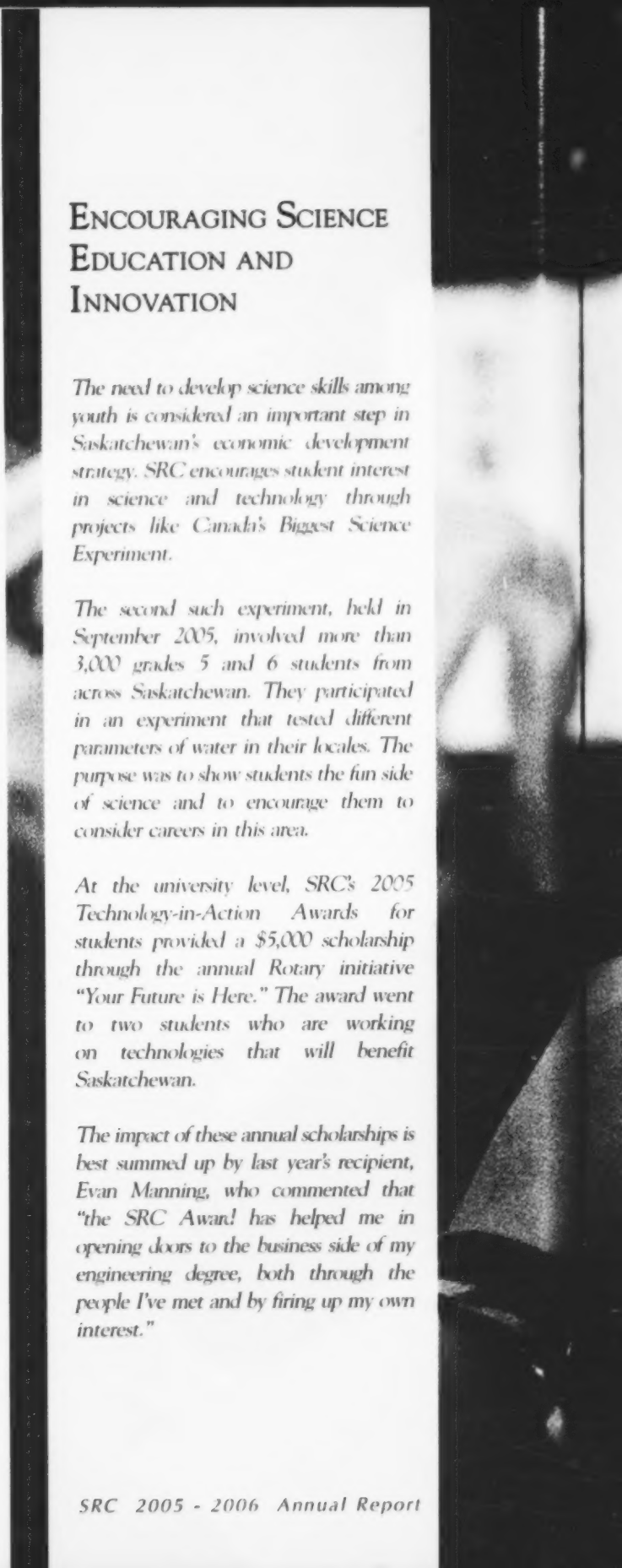
Encouraging Science Education and Innovation

The need to develop science skills among youth is considered an important step in Saskatchewan's economic development strategy. SRC encourages student interest in science and technology through projects like Canada's Biggest Science Experiment.

The second such experiment, held in September 2005, involved more than 3,000 grades 5 and 6 students from across Saskatchewan. They participated in an experiment that tested different parameters of water in their locales. The purpose was to show students the fun side of science and to encourage them to consider careers in this area.

At the university level, SRC's 2005 Technology-in-Action Awards for students provided a $5,000 scholarship through the annual Rotary initiative "Your Future is Here." The award went to two students who are working on technologies that will benefit Saskatchewan.

The impact of these annual scholarships is best summed up by last year's recipient, Evan Manning, who commented that "the SRC Award has helped me in opening doors to the business side of my engineering degree, both through the people I've met and by firing up my own interest."



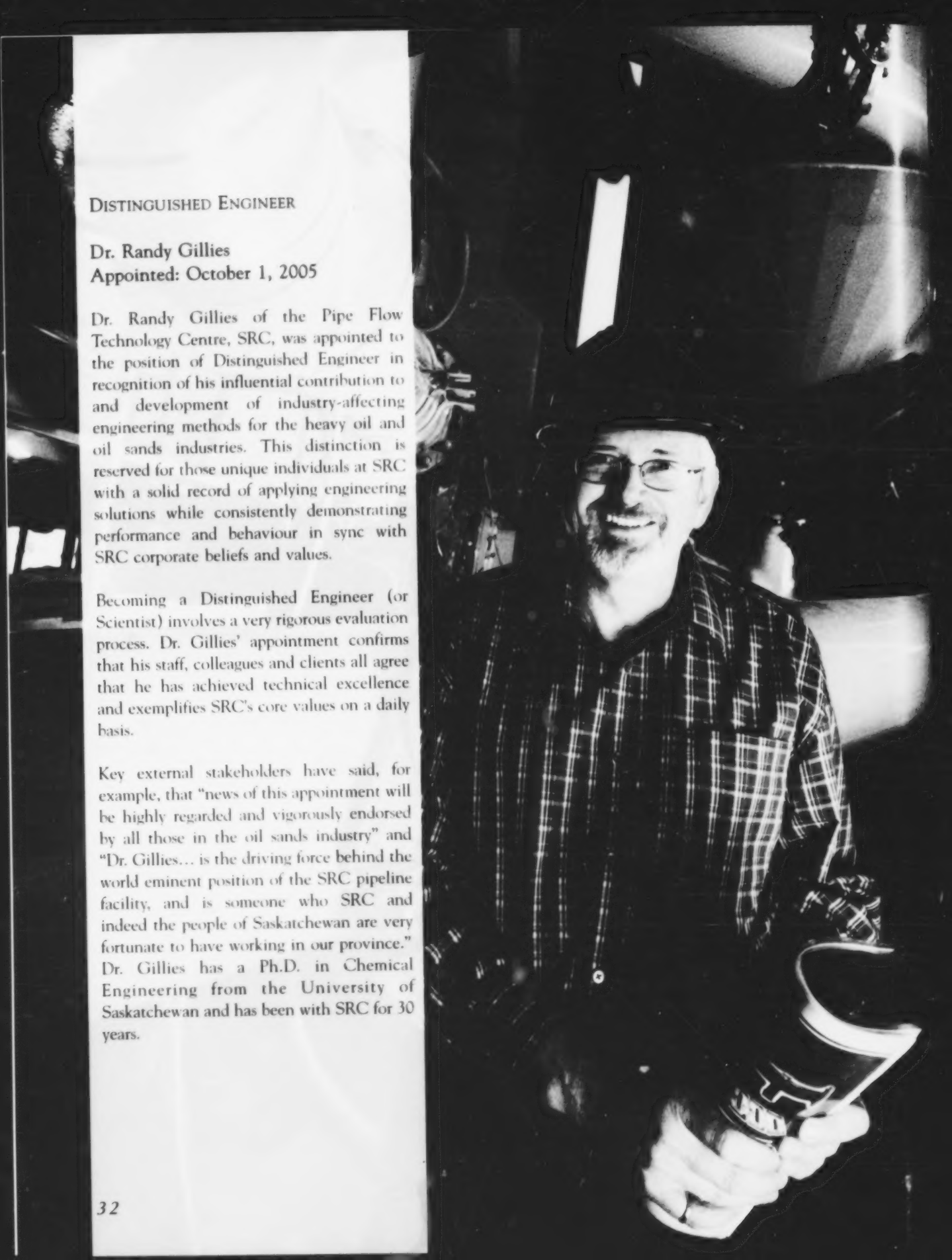
Distinguished Engineer

Dr. Randy Gillies
Appointed: October 1, 2005

Dr. Randy Gillies of the Pipe Flow Technology Centre, SRC, was appointed to the position of Distinguished Engineer in recognition of his influential contribution to and development of industry-affecting engineering methods for the heavy oil and oil sands industries. This distinction is reserved for those unique individuals at SRC with a solid record of applying engineering solutions while consistently demonstrating performance and behaviour in sync with SRC corporate beliefs and values.

Becoming a Distinguished Engineer (or Scientist) involves a very rigorous evaluation process. Dr. Gillies' appointment confirms that his staff, colleagues and clients all agree that he has achieved technical excellence and exemplifies SRC's core values on a daily basis.

Key external stakeholders have said, for example, that "news of this appointment will be highly regarded and vigorously endorsed by all those in the oil sands industry" and "Dr. Gillies... is the driving force behind the world eminent position of the SRC pipeline facility, and is someone who SRC and indeed the people of Saskatchewan are very fortunate to have working in our province." Dr. Gillies has a Ph.D. in Chemical Engineering from the University of Saskatchewan and has been with SRC for 30 years.



CORPORATE GOVERNANCE

Authority

The Saskatchewan Research Council (SRC) is a Treasury Board crown corporation governed by *The Research Council Act*. Within this framework, the Board formulates policy and delegates the responsibility and authority for the ongoing management of the corporation to the President & CEO.

Board Responsibilities

The Board ensures that the activities of the corporation are carried out under the terms of *The Research Council Act*. The Board oversees the stewardship of the corporation and has responsibility for strategic planning and monitoring financial and business performance. The Board ensures that management has systems in place to identify and manage the principal risks of the corporation's business.

Board Composition And Compensation

The SRC Board is comprised of nine members with a diverse combination of knowledge and expertise including scientific, legal, management, financial and public relations skills. The members represent a cross-section of SRC's stakeholder community including individuals from business, industry, the public sector and academic institutions.

Eight directors, including the Chair, are independent of SRC management. The one related director is the President & CEO of the corporation.

Board members (except for members who are government employees) receive an honorarium for meetings attended. The level of compensation is established by Treasury Board. Members are allowed travel and associated expenses at SRC approved rates.

The Board And Management

The Board focuses on the strategic leadership of the corporation and does not become involved in day-to-day management, but delegates and entrusts operational decisions to senior management, holding senior management accountable for the company's performance, its long-term viability and the achievement of its objectives.

Committees

The Board of Directors has established the following committees to address specific areas of Board responsibility:

Audit/Finance Committee

The Audit/Finance Committee is responsible for monitoring, advising and making recommendations to the Board regarding all aspects of financial planning and the financial management of the organization. The Audit/Finance Committee acts as the communication link between the Board of Directors and the Provincial Auditor.

Governance Committee

The Governance Committee is responsible for monitoring, advising and making recommendations to the Board regarding the governance strategy of the corporation, assessing and evaluating Board and CEO performance, administering the Board-CEO relationship and monitoring and assessing risk within the corporation.

Report of Management
Year Ended March 31, 2006

The accompanying financial statements are the responsibility of the management of the Saskatchewan Research Council. They have been prepared in accordance with Canadian generally accepted accounting principles, using management's best estimates and judgements, where appropriate.

Management is responsible for the reliability and integrity of the financial statements, the notes to the financial statements, and other financial information contained in this report. Management is also responsible for maintaining a system of internal controls, policies and procedures designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board is assisted in exercising its responsibilities through the Audit/Finance Committee, which is composed of five non-management directors and one management director. The Committee meets periodically with management to satisfy itself that management's responsibilities are properly discharged, to review the financial statements and to recommend approval of the financial statements to the Board.

The Provincial Auditor of Saskatchewan has audited the Council's financial statements in accordance with Canadian generally accepted auditing standards and his report follows.

Laurier Schramm
President and CEO

Crystal Smudy, CA
Chief Financial Officer

Consolidated Financial Statements
Year Ended March 31, 2006

Auditor's Report

To the Members of the Legislative Assembly of Saskatchewan.

I have audited the consolidated balance sheet of the Saskatchewan Research Council as at March 31, 2006 and the consolidated statements of operations and retained earnings and cash flows for the year then ended. The Council's management is responsible for preparing these financial statements for Treasury Board's approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Council as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Regina, Saskatchewan
May 12, 2006

Fred Wendel, CMA, CA
Provincial Auditor

CONSOLIDATED BALANCE SHEET

As At March 31
(Thousands of dollars)

STATEMENT 1

	2006	2005
ASSETS		
Current assets:		
Cash (Note 6)	$ 2,963	$ 1,086
Accounts receivable	6,131	4,653
Prepaid expenses	586	476
	9,680	6,215
Non-current assets:		
Accrued benefit asset (Note 3)	140	74
Restricted investment (Note 4)	649	592
Trust investment (Note 9)	767	500
Property, plant and equipment (Note 5)	11,738	7,026
	$ 22,974	$ 14,407
LIABILITIES AND PROVINCE'S EQUITY		
Current liabilities:		
Accounts payable	$ 4,055	$ 1,990
Unearned revenue	975	1,149
Deferred revenue (Note 7)	1,042	399
Salaries and wages payable	1,029	899
Vacation payable	186	156
	7,287	4,593
Non-current liabilities:		
Sick leave benefits payable	255	275
Asset retirement obligation (Note 9)	1,643	1,451
Deferred revenue (Note 7)	3,955	1,351
	13,140	7,670
Province's equity:		
Contributed surplus	922	922
Retained earnings - unappropriated (Statement 2)	8,263	5,223
Retained earnings - appropriated (Note 4)	649	592
	9,834	6,737
	$ 22,974	$ 14,407

(See accompanying notes to the financial statements)

Saskatchewan Research Council

CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS

Year Ended March 31

(Thousands of dollars)

STATEMENT 2

	2006 (Note 14)	2005 (Note 14)
Revenue:		
Contracts	$ 22,735	$ 19,363
Grant - General Revenue Fund	8,579	7,865
Grant - Agri-Food Innovation Fund (Note 7)	399	399
Grant - Capital Enhancements (Note 7)	206	0
Interest revenue	164	98
Change in restricted investment (Note 4)	57	74
	32,140	27,799
Expenses:		
Salaries and benefits	14,147	12,873
Supplies and services	8,155	6,835
Accommodation charges	4,749	4,445
Amortization of property, plant and equipment	2,203	1,614
Amortization of Agri-Food Innovation Fund funded assets (Note 7)	399	399
Amortization of Capital Enhancements funded assets (Note 7)	206	0
	29,859	26,166
Net income from operations	2,281	1,633
Defined benefit pension plan revenue (Note 3)	66	15
Net income before extraordinary item	2,347	1,648
Extraordinary item (Note 8)	750	0
Net income	3,097	1,648
Retained earnings - unappropriated, beginning of year	5,223	3,649
Change in appropriated amount during year (Note 4)	(57)	(74)
Retained earnings - unappropriated, end of year - to Statement 1	$ 8,263	5,223

(See accompanying notes to the financial statements)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended March 31

(Thousands of dollars)

STATEMENT 3

	2006	2005
Cash flows from operating activities:		
Cash receipts from contracts	$ 21,932	$ 18,805
Cash receipts from General Revenue Fund	12,390	7,865
Cash paid to suppliers and employees	(24,867)	(22,831)
Interest received	140	98
Cash flows from operating activities	9,595	3,937
Cash flows from investing:		
Purchase of trust investment (Note 9)	(260)	(500)
Purchase of property, plant and equipment	(7,458)	(2,602)
Proceeds from sale of restricted investment	0	57
Cash flows used in investment activities	(7,718)	(3,045)
Net increase in cash position	1,877	892
Cash, beginning of year	1,086	194
Cash, end of year	$ 2,963	$ 1,086

(See accompanying notes to the financial statements)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006

1. Status of Saskatchewan Research Council

Saskatchewan Research Council ("the Council") was established pursuant to Section 3 of *The Research Council Act* for the purpose of research and investigation in the fields of the physical sciences, pure and applied, as they affect the economy of the Province of Saskatchewan. The Council is a body corporate which receives monies appropriated by the Legislature for these purposes. It is also empowered to conduct research under contract for others and to receive financial assistance pursuant to agreements with other similar agencies.

2. Summary of Accounting Policies

The financial statements are prepared in accordance with Canadian generally accepted accounting principles. The following accounting principles are considered to be significant:

a) Consolidation Principles and Basis of Presentation

The accounts of TecMark International Commercialization Inc., a wholly owned subsidiary of the Saskatchewan Research Council, are consolidated in these financial statements.

The Council's proportionate share of the assets, liabilities, revenues, expenses and cash flows of a joint venture with Bova-Can Parentage Testing Inc. are included in these financial statements.

b) Accrual Basis

The financial statements are prepared on the accrual basis of accounting.

c) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in Canada requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Summary of Accounting Policies (Continued)

d) Revenue Recognition

Revenue from contract work is recognized on the percentage-of-completion method, which recognizes revenue as a contract progresses.

Unbilled revenues are accrued to the year-end for these contracts, while pre-billed revenues received are classified as unearned revenue.

Grants from the General Revenue Fund are unrestricted in nature and recognized as they are received or receivable. An exception to this is the Capital Enhancements Revenue which is recognized at the same rate as the related assets are put in use and amortized.

Other contributions that are restricted for a specified use are deferred and are recognized as revenue when the related expenses are incurred.

Agri-Food Innovation Fund (AFIF) revenue is recognized at the same rate as the related assets are put in use and amortized.

Donations revenue is recognized upon receipt based on the value of the assets received.

e) Property, Plant and Equipment

The assets of the Council are initially recorded at cost, including labour, material and overhead for self-constructed assets.

Amortization of property, plant and equipment is provided over the estimated useful lives of the assets on the following basis:

i) Sum-of-the-years'-digits method	
Buildings	20 years
Equipment	5-10 years
ii) Declining balance method	
Automotive	33⅓%
iii) Straight-line	
Goodwill	5 years
Leaseholds	2 - 9 years
Fermentation and GenServe Equipment	10 years

2. Summary of Accounting Policies (Continued)

f) Accrued Vacation Credits

The costs associated with vacation credits are recognized when the vacation entitlements are earned. The value of credits earned to the year-end but not taken is reflected as a liability.

g) Sick Leave Benefits

The Council allowed employees to accumulate 10% of their unused sick leave credits earned to March 31, 1998. The costs associated with these sick leave benefits were recognized when the benefits were earned.

The practice of paying out sick leave credits ceased effective April 1, 1998. Upon termination of employment the Council pays out 10% of the accumulated unused sick leave credits to March 31, 1998, based on the wage rate in effect at March 31, 1998.

h) Restricted Investment

The investment is comprised of deposits in units in a balanced mutual fund managed by a professional investment manager. The balanced mutual fund has no fixed interest rate, and the return is based on the performance of the fund. Additional units in the mutual fund are acquired when distributions are made by the fund. Cash dividends are not paid by the fund; however, investors can realize changes in the underlying unit values by redeeming units.

Units in the mutual fund are recorded in the accounts at their net asset value per unit. Net asset value per unit is the market value of the investments in the fund portfolio divided by the total number of outstanding units in that fund. The adjustment necessary to record units at their net asset value at the year-end is shown as a change in restricted investment on the consolidated statement of operations and retained earnings.

i) Asset Retirement Obligation (ARO)

The fair value of legal obligations to retire long-lived assets is recorded as an ARO with a corresponding increase in the carrying amount of the related assets. The recorded ARO increases over time through accretion charges to earnings. The capitalized assets are depreciated to income consistent with the depreciation of the related assets.

3. Accrued Benefit Asset - Pension Plan

The Council maintains a pension plan for its employees. Until December 31, 1990, it was a defined benefit plan. Effective January 1, 1991, the plan was changed to a defined contribution plan. The changes do not affect existing pensioners who will continue to receive benefits as granted. The latest actuarial valuation was updated as at January 1, 2006. The pension plan has been valued using management's best estimates.

The defined contribution plan had a market value of $19,121,000 (2004 - $18,962,000) at December 31, 2005. The value of the defined contribution plan assets and liabilities has not been extrapolated from December 31 to March 31.

By design, the liabilities will always equal the assets of a defined contribution plan.

The defined benefit asset and obligation have been extrapolated from the January 1 actuarial valuation to March 31. The financial position of the defined benefit plan is as follows:

	2006 (000's)	2005 (000's)
Defined benefit asset at market value, January 1	$ 2,621	$ 2,691
Net change in asset value	28	(40)
Asset value, extrapolated to March 31	2,649	2,651
Defined benefit obligation at January 1	2,384	2,472
Net change in obligation	125	105
Obligation, extrapolated to March 31	2,509	2,577
Accrued benefit asset, March 31	$ 140	$ 74

Upon termination of the Plan, any accrued benefit asset of the Pension Fund remaining, after discharging all liabilities, shall belong to the Council. The accrued benefit asset may be distributed in a manner to be determined by the Council, at its sole discretion, after receiving prior approval in accordance with *The Pension Benefits Act, 1992*, the *Income Tax Act (Canada)* and the regulations thereunder.

The defined benefit pension plan revenue of $66,000 (2005 - $15,000) is the year over year change in the accrued benefit asset and obligation. The defined contribution pension plan expense (employer contributions) for the year was $600,000 (2005 - $545,000). The benefits paid from the defined benefit pension plan during the year were $324,000 (2005 - $322,000). Effective January 1, 2003 the Council is not being reimbursed for administrative costs incurred by the pension plan.

4. Restricted Investment

Restricted investment represents the Technology in Action Fund ("Fund"), which was established by the Council in 1994 when Mr. Ian Wahn made a gift to the Council, an agent of the Crown. The Fund was established to help the people of Saskatchewan develop their province as a highly skilled, fair, desirable and compassionate society with a secure environment through research, development and the transfer of innovative scientific and technological solutions, applications and services. The Council received a binding ruling from the Canada Revenue Agency that accepts this as a "Gift to the Crown".

The Council maintains a separate account for the capital contributions and all investment income earned. The balance of the fund at March 31 is as follows:

	2006 (000's)	Change (000's)	2005 (000's)
Capital contributions	$ 504	$ 0	$ 504
Investment earnings	276	73	203
Technology grants, fund expenses	(131)	(16)	(115)
Total	$ 649	$ 57	$ 592

The investment earnings includes the actual earnings of the investment and the year over year change in the market value of the assets.

5. Property, Plant and Equipment

	2006 Cost (000's)	2006 Accumulated Amortization (000's)	2006 Net Book Value (000's)	2005 Net Book Value (000's)
Buildings	$ 601	$ 430	$ 171	$ 214
Leaseholds	5,322	3,643	1,679	1,517
Equipment	23,719	15,468	8,251	3,896
Automotive	298	216	82	33
Slowpoke Asset	487	303	184	101
Fermentation Facility	3,370	2,684	686	1,029
GenServe Equipment	562	393	169	225
Fermentation Upgrade	505	0	505	0
Land	11	0	11	11
	$ 34,875	$ 23,137	$ 11,738	$ 7,026

Included in the cost and net book value of equipment, is $3,224,000 (2005 - $243,000) of assets that were not amortized because they were not ready for use. Of this amount $2,537,000 (2005 - $0) relates to the Grant – Capital Enhancements funded assets and $505,000 (2005 - $0) relates to the Fermentation Upgrade and the balance of $182,000 (2005 - $243,000) is for standard equipment purchases.

6. Bank Indebtedness

The Council was authorized by the Minister of Finance to establish a line of credit not to exceed $5,100,000. There is an assignment of the accounts receivable as collateral for bank indebtedness. Interest is charged on the line of credit at the Bank of Montreal prime rate.

7. Deferred Revenue

The Council received contributions for certain property, plant and equipment, which it records as deferred revenue until such time as the related assets are put in use and amortized.

a) GenServe Equipment and Fermentation Facility

The total amount of deferred revenue related to Agri-Food Innovation Fund (AFIF) funded assets is $856,000 (2005 - $1,255,000). During the year the Council recorded $399,000 (GenServe $56,000 and Fermentation Facility $343,000; 2005 - $56,000 and $343,000 respectively) as revenue based on the amortization of the related property, plant and equipment.

The long-term portion, $457,000 (GenServe $113,000 and Fermentation Facility $344,000; 2005 - $169,000 and $687,000 respectively), represents AFIF monies used to purchase property, plant and equipment that will be recognized as revenue at the same rate that the related assets are amortized.

b) Fermentation Upgrade

The total amount of deferred revenue is $751,000 (2005 – $495,000). During the year, SRC commenced the upgrade of the Fermentation facility. These assets are not in use as at March 31, 2006.

c) Capital Enhancements

The Council received specific funding to replace aging equipment and acquire enhanced equipment. The total amount of deferred revenue is $3,391,000. During the year the Council recorded $206,000 as revenue based on the amortization of the related property, plant and equipment.

The long-term portion $3,955,000 represents funding used to purchase property, plant and equipment that will be recognized as revenue at the same rate that the related assets are amortized. The details of the long-term portion as listed below.

	2006	2005
GenServe	$ 113,000	$ 169,000
Fermentation Facility	344,000	687,000
Fermentation Upgrade	751,000	495,000
Capital Enhancements	2,747,000	0
Total	$3,955,000	$1,351,000

8. Extraordinary Item

The Council received a contribution of equipment during the year from the Petroleum Technology Research Center (PTRC). The value of the equipment is recorded at the cost incurred by PTRC. The equipment received is a scaled, high-pressure physical model that can simulate oilfield reservoir conditions.

9. Asset Retirement Obligation (ARO)

The Canadian Nuclear Safety Commission (CNSC) licensing conditions require that SLOWPOKE reactor owners have in place a decommissioning plan and a financial plan to cover the associated costs.

The fair value of legal obligations to retire the SLOWPOKE reactor is recorded as an ARO with a corresponding increase in the carrying amount of the related assets. The recorded ARO increases over time through accretion charges to earnings. The capitalized assets are depreciated to income consistent with the depreciation of the related assets.

The determination of the ARO is based on the current estimated costs of decommissioning. The eventual decommissioning is estimated to occur in 2015 and require eighteen months to complete. The discount rate used to determine the current value of the obligation was 5.5% for 2005. In 2006 there was an increase in cost estimates of $133,000. The discount rate used to determine the increased value of the obligation was 5.25%. The obligation at year-end is $1,643,000 (2005 - $1,451,000).

At March 31, 2006 the Council has invested $767,000 (2005 - $500,000) in a legal trust for purpose of settling the ARO. The terms of the trust agreement require the Council to contribute annually to the trust account over the next four years until the balance equals the current estimated decommissioning costs. The funds cannot be used for any purpose without prior approval of CNSC.

10. TecMark Inc.

TecMark International Commercialization Inc. ("TecMark") was incorporated under *The Business Corporations Act (Saskatchewan)* on October 9, 1996, as a wholly owned subsidiary of the Council. The purpose of the Corporation is to assist in the commercialization of technology for inventors, entrepreneurs and partner institutions in the Province of Saskatchewan.

Supplies and services includes $80,560 (2005 - $45,182) in connection with projects undertaken by TecMark.

11. Office of Energy Conservation

The Office of Energy Conservation (OEC) is a part of the Council. It is headed by the Director of OEC who is an employee of the Council. The mandate of the OEC is to develop and implement cost effective energy conservation initiatives, including public information demonstrations of energy conservation measures and to encourage voluntary action by public and industry. The OEC is guided by a Steering Committee that is comprised of representatives from but not limited to Saskatchewan Power Corporation, SaskEnergy Incorporated, Crown Investments Corporation of Saskatchewan, Department of Industry and Resources, and Department of Environment. During the year the OEC earned revenue of $1,125,000 (2005 - $839,000) and incurred expenses of $1,125,000 (2005 - $831,000).

12. Joint Venture

Effective February 1, 1997, the Council entered into a 50 percent ownership joint venture with Bova-Can Parentage Testing Inc. The agreement was renewed June 1, 2001 for an additional five years. The agreement provides Bova-Can Laboratories with access to all animal lists and history, and the genotyping market. Upon termination of this agreement, the Council agrees to provide to each breed association, upon request, a copy of their complete database of genotypes, and access to, and control over, samples from the DNA bank. The Council and Bova-Can Parentage Testing Inc. will each receive 50% of the net assets.

The Council's pro-rata share of its interest in the joint venture is as follows:

	2006 (000's)	2005 (000's)
Current Assets	$ 217	$ 190
Long-term Assets	12	16
Current Liabilities	28	13
Long-term Liabilities	4	5
Revenue	436	416
Expenses	426	429
Net Income (Loss)	10	(13)
Cash flows resulting from operating activities	(25)	14
Cash flows resulting from investing activities	(2)	0

13. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Council by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control or significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms except for the following:

During the year, the Council paid $4,277,000 (2005 - $3,984,000) to the Department of Property Management and Saskatchewan Opportunities Corporation (SOCO) for accommodation charges on buildings. At year-end, the Council has lease commitments with SOCO requiring minimum lease payments of:

2007	$ 2,911,000
2008	2,911,000
2009	2,911,000
2010	2,911,000
2011	241,634

13. Related Party Transactions (continued)

In 2006, the Council purchased supplies and services for $2,158,000 (2005 - $1,699,000) from related parties.

During the year, the Council entered into fee-for-service contracts for $3,193,000 (2005 - $2,615,000) with related parties, of which $1,089,000 (2005 - $406,000) remains in accounts receivable as at March 31. The Council has $4,746,000 (2005 - $1,750,000) of deferred revenue from related parties as at March 31. Of the $4,746,000, $687,000 (2005 - $1,030,000) is related to the Fermentation Facility's funding from AFIF, $169,000 (2005 - $225,000) is related to the GenServe funding from AFIF and $500,000 (2005 - $ 495,000) is related to the Fermentation Upgrade funding.

During the year, the Council provided general administrative services to the Saskatchewan Research Council Employees' Pension Plan without charge.

Other transactions with related parties and amounts due to/from them are described separately in the financial statements and the notes thereto.

14. Comparison of Planned and Actual Results

A comparison of actual to budgeted results for each line on the consolidated statement of operations follows:

	Actual 2006 (000's)	Budget 2006 (000's)	Actual 2005 (000's)	Budget 2005 (000's)
Revenue:				
Contracts	$ 22,735	$ 23,026	$ 19,363	$ 22,531
Grant - General Revenue Fund	8,579	8,190	7,865	7,879
Grants - AFIF	399	399	399	399
Grants - Capital Enhancements	206	0	0	0
Interest revenue	164	40	98	40
Change in restricted investment	57	0	74	0
	32,140	31,655	27,799	30,849
Expenses:				
Salaries and benefits	14,147	13,900	12,873	13,092
Supplies and services	8,155	10,722	6,835	10,763
Accommodation charges	4,749	4,738	4,445	4,529
Amortization of property, plant and equipment	2,203	1,840	1,614	1,680
Amortization of AFIF funded assets	399	399	399	399
Amortization of Capital Enhancements funded assets	206	0	0	0
	29,859	31,599	26,166	30,463
Net income from operations	2,281	56	1,633	386
Defined benefit pension plan revenue	66	0	15	0
Net income before extraordinary item	2,347	56	1,648	386
Extraordinary item	750	0	0	0
Net income	$ 3,097	$ 56	$ 1,648	$ 386

15. Expenses by Program

Program	Actual 2006 (000's)	Budget 2006 (000's)	Actual 2005 (000's)	Budget 2005 (000's)
Research & Technology	$ 18,323	$ 20,091	$ 16,288	$ 19,602
Laboratory Services	11,536	11,508	9,878	10,861
Total	$ 29,859	$ 31,599	$ 26,166	$ 30,463

15. Expenses by Program (continued)

Administrative services have been allocated to each program based on a percentage of labour. Space costs have been allocated to each program based on the approximate square footage occupied.

16. Commitment

SRC established a legal trust account in which to invest and hold funds for the eventual decommissioning of the SLOWPOKE reactor. This trust agreement is a condition of the operating license issued to the Council by CNSC. An initial investment of $500,000 was made in 2004. An additional investment of $260,000 was made in June 2005. Annual investments of $260,000 are required for each of the next four years.

17. Financial Instruments

The Council's significant financial instruments consist of accounts receivable, accounts payable, other payables, trust investment and the restricted investment.

Credit Risk:

The Council is exposed to credit risk from the potential default of customers. However, the majority of the Council's receivables are from related parties, other government agencies and reputable, longstanding corporate clients. Therefore the credit risk is minimal.

Fair Values:

The fair values of the accounts receivable, accounts payable and other payables approximate their carrying value due to the short-term nature of these instruments. The fair value of the restricted investment is considered to be market value, the calculation of which is detailed in Note 2.

18. Comparative Figures

Certain of the 2005 financial statement balances have been reclassified to conform with presentation of the 2006 figures.

Saskatchewan Research Council

2005-2006 Annual Report

Supplementary Information
(unaudited)

Details of Revenue and Expense

Saskatchewan Research Council (Vote 35)

Mission Statement

The Saskatchewan Research Council's (SRC) mission is to help the people of Saskatchewan strengthen the economy with quality jobs and a secure environment. We do it through research, development, and the transfer of innovative scientific and technological solutions, applications and services.

SRC creates wealth through the responsible application of science and technology to assist Saskatchewan industry to be globally competitive.

Year ended March 31	**2006**
Transfers	
All expenses paid from this vote were transfers to the Saskatchewan Research Council.	

Saskatchewan Research Council
(Vote 35)

This program provides funding for the Saskatchewan Research Council:

(Thousands of dollars)	$000s
Revenue:	
Contracts	$ 22,735
Grants - General Revenue Fund	8,579
Grants - Agri-Food Innovation Fund	399
Grants - Capital Enhancements	206
Interest revenue	164
Change in restricted investment	57
	32,140
Expense:	
Personal services	14,147
Travel	923
Transfers	0
Contract services	625
Communications	301
Supplies and services	6,306
Accommodation charges	4,749
Equipment, other capital assets and amortization	2,808
	29,859
Net income from operations	2,281
Defined benefit pension plan revenue	66
Net income before extraordinary item	2,347
Extraordinary item	750
Net income	3,097
Retained earnings - unappropriated, beginning of year	5,223
Change in appropriated amount during year	(57)
Retained earnings - unappropriated, end of year	$ 8,263

Expense Detail

Personal services

Unaudited list of individuals who received payments for salaries, wages, honorariums, and compensation for personal service.

	$000s
Annesley, I	91
Anweiler, D	75
Archibald, P	51
Arnold, T	112
Babich, K	55
Begrand, R	73
Beisel, J	80
Brown, G	109
Chorney, D	60
Chrusch, L	60
Dick, R	71
Doerksen, K	54
Dumont, R	85
Evans, V	53
Exelby, D	63
Freitag, N	88
Friesen, A	54
Gartner, B	74
Gillies, R	103
Godwin, B	53
Grier, D	113
Hill, S	81
Holsten, A	89
Huang, S	101
Hutchence, K	81
Jackson, A	56
Jackson, C	63
Johnston, M	84
Judd-Henrey, I	79
Kent, D	53
Ketterer, T	67
Knorr, K	81
Kristoff, B	99
Kurucz, L	57
Lang, K	53
Lung, B	74
Lychak, J	58
Maathuis, H	94
MacDermott, T	50
Makohon, J	70
Mamer, S	54
McCready, A	68
McCubbing, M	57
McKibben, M	59
McVicar, G	105
Melville, G	79
Mircea, C	62
Moody, M	56
Moser, P	53
Murray, C	108
Nicolichuk, N	58
Nyirfa, W	102
Owens, K	112
Pappas, E	115
Perron, G	56
Plante, Y	86
Quirt, D	67
Ranganathan, R	119
Robinson, J	73
Rollins, M	87
Sayegh, S	79
Schergevitch, P	54
Schramm, L	189
Sherwood, M	51
Sherwood, P	54
Shewchuk, S	94
Shi, R	50
Simpson, M	67
Smith, B	52
Smudy, C	141
Snodgrass, L	56
Soveran, D	102
Stanek, B	77
Sulatisky, M	101
Sun, R	67
Thorpe, J	81
Tremblay, B	90
Wallace, K	93
Weekes, M	120
Wheaton, E	85
White, T	60
Wittrock, V	57
Young, K	95
Yuen, W	93
Zhang, P	72
Zimmer, J	60
Zlipko, D	53
Bova Can Adjustment	(312)
Under $50,000	5,864
Payroll and pension plan remittances	1,859
	$ 14,147

Travel

Unaudited list of expenditures incurred by Members of the Legislative Assembly, employees and others who provided personal services.

	$000s
Minister's Travel	$ 3
Employees and Others	924
Bova-Can adjustment	(4)
	$ 923

Transfers

Unaudited list of transfers to individuals, local authorities and other third parties, for which the government does not receive any goods or services directly in return.

	$000s
Nil	$ -

Contract services

Unaudited list of specialized professional services.

	$000s
Advanced Datasystems	218
Kaminski, T	60
Kutcher, D	93
Sikma, C	76
Under $50,000	178
	$ 625

Communications

Unaudited list of expenditures related to promotion of programs; and non-promotional such as those related to exhibits, displays, and the printing of educational and informational materials and annual reports.

	$000s
Rawlco Radio	75
Under $50,000	226
	$ 301

Supplies and services

Unaudited list of payees for the acquisition of supplies and services used or required to carry out programs. The information below provides details for this category by supplier name. Some suppliers may be listed in more than one category based on the type of purchase.

	$000s
ALS Canada	108
Anachemia Science	269
Applied Biosystems	101
AVENSYS	59
BOC Gases	103
Canglobal Management Solutions	67
Ceda-Reactor	72
Central Chemical Consulting	77
CMG (Computer Modelling Group)	50
Crucell Holland B.V.	50
Dell Computer Corporation	90
Fisher Scientific	100
Marsh Canada	139
Saskatchewan Opportunities Corporation	52
Saskatoon Fluid System	70
SaskPower	51
SaskTel	227
Senes Consultants	85
Soilvision Systems	66
Thermo Instruments	54
Univar Canada	435
University of Saskatchewan	205
VWR International	71
Bova-Can adjustment	(107)
Under $50,000	3,812
	$ 6,306

Accommodation charges

Unaudited list of payees for the rental, lease and maintenance of facilities.

	$000s
North Star Innovative Developments	108
Saskatchewan Opportunities Corporation	3,540
Saskatchewan Property Management	988
Under $50,000	113
	$ 4,749

Equipment, other capital assets and amortization

Unaudited list of payees for the purchase of equipment and other assets used in the delivery of programs.

The information below provides details for this category by supplier name. Some suppliers may be listed in more than one category based on the type of purchase.

	$000s
Action Office Interiors	52
Advanced Engine Technologies	175
Agilent Technologies	236
Applied Technologies	94
ATS Scientific	84
AVENSYS	129
Campbell Scientific	95
Dell Computer Corporation	138
ESRI Canada	62
Fakespace Systems	512
Firstenberg Machinery	314
Fisher Scientific	103
Gamble Technologies	99
GE Healthcare Bio-Sciences	285
Infinity Instruments	98
K Prime Technologies	68
Kruss USA	137
Li-Cor	70
Mandel Scientific	121
National Instruments	110
Nikon Canada	110
Percy H. Davis	99
Perkin Elmer	145
Sequenom	414
Sierra Instruments	170
Structural Repair	63
Taylor Dynamometer	53
Technical Sales Consulting	192
Thermo Instruments	169
Capital assets and leasehold improvements:	
- Saskatchewan Opportunities Corporation	594
- Saskatchewan Property Management	432
Bova-Can adjustment	(6)
Difference between cash purchases and amortization of capital assets	(4,644)
Under $50,000	2,035
	$ 2,808

At SRC we value Integrity, Teamwork, Performance Excellence, and Learning

Integrity

- We treat people with respect, fairness, honesty, patience, understanding and trust.
- We are an equal opportunity employer and respect diversity.
- We are a responsible corporate citizen committed to the health and safety of people and the environment.
- We practice high ethical and professional standards.

Teamwork

- We are committed to achieving common goals through teamwork.
- We collaborate, listen and share information within SRC and with our partners.
- We consistently present a total corporate image.
- We participate actively within our networks to the benefit of clients, colleagues and the community.

Performance Excellence

- We are a financially responsible organization.
- We lead by example. We are accountable for our actions, successes and failures.
- We establish and communicate clear expectations to staff, clients and partners.
- We recognize the accomplishments of our colleagues and of the organization as a whole.
- We actively seek new clients, and strive to retain existing clients.
- We demonstrate our commitment to clients by keeping lines of communication open, providing quality products and services and delivering on time and within budget.

Learning

- We facilitate and acknowledge personal and professional growth.
- We strive to achieve excellence through innovation and continuous improvement.
- We develop or acquire appropriate knowledge as needed to achieve the best solutions for our clients and partners.
- We learn from our successes and our failures.

Sustainable Science Solutions

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